

Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2010



Kentucky 
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Commonwealth of Kentucky
Comprehensive Annual Financial Report
for the Fiscal Year Ended June 30, 2010

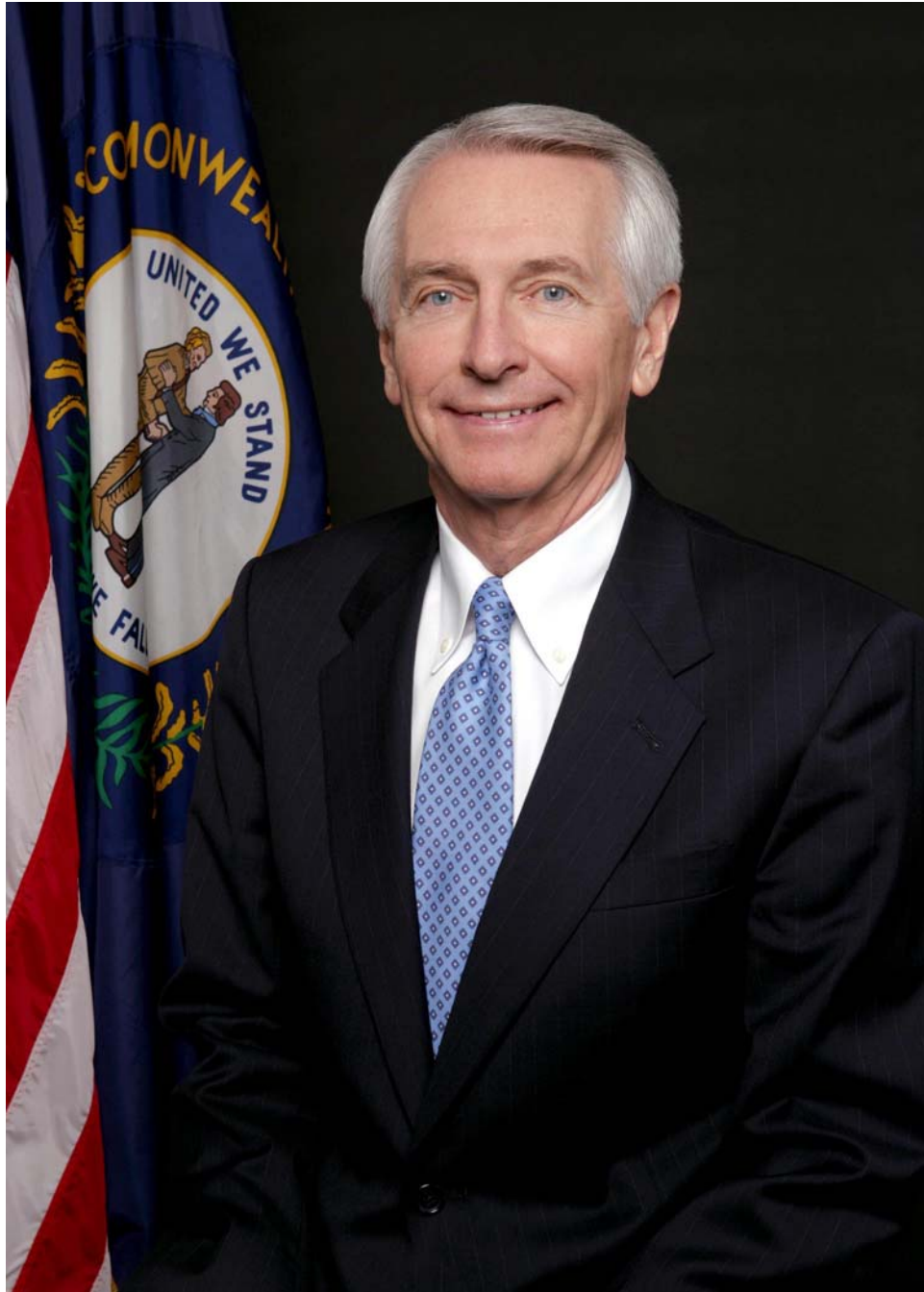
Steven L. Beshear, Governor



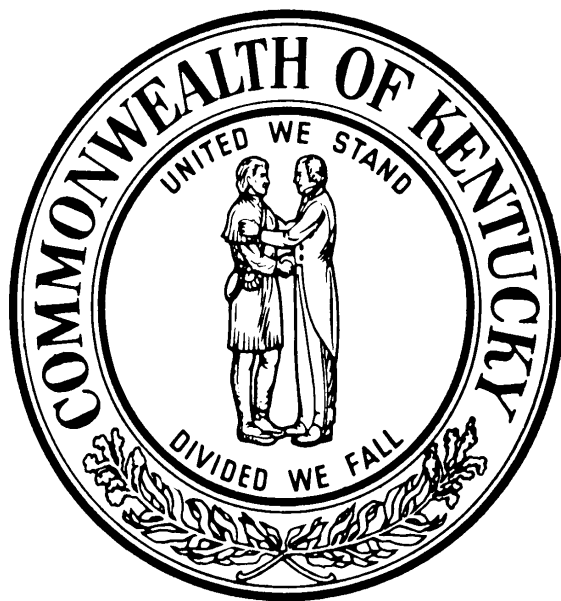
Prepared by:
Finance and Administration Cabinet
Jonathan Miller, Secretary

Office of the Controller
Edgar C. Ross, Controller

Statewide Accounting Services
Donald Sweasy, Assistant Controller



Steven L. Beshear
Governor



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INTRODUCTORY SECTION



STEVEN L. BESHEAR

GOVERNOR

OFFICE OF THE SECRETARY

Finance and Administration Cabinet

383 CAPITOL ANNEX

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JONATHAN MILLER

Secretary

December 17, 2010

The Honorable Steven Beshear, Governor
Members of the Kentucky General Assembly
Citizens of Kentucky

INTRODUCTION

Section 48.800 (3) of the Kentucky Revised Statutes (K.R.S.) requires the Finance and Administration Cabinet to submit a complete report of the financial transactions of the preceding year and of the financial condition of the Commonwealth as of the end of that fiscal year. In accordance with this statute, it is my pleasure to transmit to you the Comprehensive Annual Financial Report of the Commonwealth of Kentucky for the Fiscal Year Ended June 30, 2010. This report is prepared by the Finance and Administration Cabinet, Office of the Controller, Division of Statewide Accounting Services, which assumes responsibility for the accurate, complete, and fair presentation of the data contained herein. The information presented fully describes the Commonwealth's financial condition and results of operations of the primary government and component units for which it is financially accountable. All appropriate disclosures necessary for the reader to gain the maximum understanding of Kentucky's financial affairs are included.

The accompanying financial statements have been audited by the Office of the Auditor of Public Accounts of the Commonwealth of Kentucky. Their examination was conducted in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States. The independent auditor concluded that the Commonwealth of Kentucky's financial statements for the year ended June 30, 2010, are fairly presented in conformity with GAAP. The report of the independent auditor appears elsewhere in this report.

PROFILE OF THE COMMONWEALTH OF KENTUCKY

The Reporting Entity and Its Services

This report includes all funds and component units for which the Commonwealth is financially accountable, based on criteria established by the Governmental Accounting Standards Board's (GASB) Statement 14 as amended by GASB 39. The component units which are blended into the Commonwealth's primary government and function as actual parts of the Commonwealth are: the State Property and Buildings Commission, Kentucky Asset/Liability Commission, Kentucky Lottery Corporation, Turnpike Authority of Kentucky, Board of Agriculture, Kentucky Savings Bond Authority, Kentucky Retirement System, Judicial Form Retirement, Kentucky Public Employees' Deferred Compensation Authority, Kentucky Tobacco Settlement Trust Corporation, Kentucky Teachers' Retirement System, Kentucky School Facilities Construction Commission, and Kentucky Gas Pipeline Authority.

The Commonwealth's discretely presented component units are: the Bluegrass State Skills Corporation, Kentucky River Authority, Kentucky State Fair Board, Kentucky Center for the Arts Corporation, Kentucky Educational Television Authority, Kentucky Economic Development Finance Authority, Kentucky Higher Education Assistance Authority, Kentucky Higher Education Student Loan Corporation, Kentucky Housing Corporation, Kentucky Infrastructure Authority, Kentucky Artisan Center, Kentucky Agricultural Finance Corporation, Kentucky Grain Insurance Corporation, Kentucky Local Correctional Facilities Construction Authority, Kentucky Access, Kentucky Horse Park Foundation, Kentucky Council on Postsecondary Education, Kentucky Community Technical College System, and the eight state-supported universities.

Additional detailed information pertaining to Commonwealth's component units is located within the Financial Section (particularly Note 1) of this report.

The Commonwealth and Its Services

Located in south central United States along the west side of the Appalachian Mountains, Kentucky was once a part of Virginia. After its split with Virginia, Kentucky retained its “commonwealth” (meaning government based on the consent of the people) status and adopted its Constitution in 1792. The Commonwealth provides the full range of services contemplated by statute, including economic development, educational and human services, energy and natural resources management, law enforcement, correctional and public protection services, transportation, public improvements, and general legislative, administrative, and judicial services. The Commonwealth’s chief executive is the Governor who is popularly elected every four years and may serve for two terms. Policies are directed through the various Cabinets. The General Assembly, or state Legislature, has two components: the Senate and the House of Representatives. The Senate has 38 members who are elected to four-year terms and the House has 100 members who are elected to two-year terms. The Legislature meets annually and has the power to enact all laws, subject to limits imposed by the state constitution. Revenue-raising issues must be initiated in the House. All other bills may be introduced by either the House or the Senate.

Budgetary Controls

The Commonwealth uses a biennial budget to assist with planning and control duties. Budgetary control is maintained at the budget unit level and is described in the notes to the Required Supplementary Information. Encumbrance accounting is utilized to insure the availability of funding before contracts are finalized. Contracts which result in overruns of available balances are not released until budget revisions are approved. Outstanding encumbrances for long-term construction projects in the Transportation Fund and the Capital Projects Fund are reported as reservations of fund balance. Encumbrances in all other funds lapse at the end of the fiscal year.

ECONOMIC CONDITION AND OUTLOOK

National Economy

By late summer, 2010, the outlook for the national economy was beginning to cool somewhat from the pace set earlier in 2010. GDP, personal income, industrial production, exports, and retail sales – the major national economic aggregates that feed into the Kentucky economy – were all moderating from the strong performance in the first calendar quarter of 2010. Corporate profits were the lone bright spot, but it was unclear whether high corporate profits would eventually lead to an increase in productive capacity and higher employment. Employment growth was anemic, wages and salaries dormant, and the unemployment rate persistently high. Talks of a double-dip recession were becoming increasingly mainstream. The national economy was facing a weak and fragile recovery period.

The outlook one quarter later is virtually unchanged. Easy gains, like the inventory correction, federal fiscal policy, and quantitative easing, are in the rear view mirror. A holding pattern has formed pending the resolution of three very critical issues: the path of the consumer; the path of corporations; and foreign demand for US exports.

Consumers have been deleveraging in the aftermath of the housing crash. In the height of the housing market, household wealth from homeowner equity was about \$13.0 trillion. Current estimates place homeowner equity at around \$6.5 to \$7.0 trillion. This represents a deeper loss of household wealth than was experienced in the stock market plunge in 2001. Losses in wealth are noteworthy because they affect consumer sentiment and the ability to purchase goods and services beyond what could be spent from current wages and salaries. While inflation and nominal interest rates are at historic lows, consumers will remain cautious until household wealth and employment gain a more firm foothold.

Domestic corporations are becoming the focal point in the economy. It has been widely reported that corporations are “awash with cash”. This prime cash position is a function of streamlining production, reducing fixed costs, and extreme caution with their workforce levels. Evidence to date indicates that some corporate investment is taking place, but the emphasis is on replacement machinery and updating computers and software. While all investment is stimulative, investments in workforce and productive capacity typically have a higher impact on the overall economy. Through this period of corporate streamlining, domestic companies have positioned themselves well in the area of global competitiveness and profitability. The next step to growing corporate profits must come from growing revenues, which typically requires new productive machinery and additional workers. The path to this stage of the recovery is unclear. It will be required, however, to advance the economy beyond the tepid growth of the current fragile recovery.

Foreign trade is the other critically watched segment of the national economy. This segment of the economy is very important in establishing the expectations of business. If the US consumer is not positioned to be the source of demand for the economy, strong demand for US goods and services must come from another source. Early in the recovery, Federal fiscal spending and tax cuts led to a noticeable bump in the economy. Between tax cuts, aid to state and local governments, Census hiring, and wide-scale infrastructure improvements, federal fiscal policy injected a dose of demand into the economy. Unfortunately, in most cases, fiscal policy can only be a temporary cure as pressures will build as the national debt continues to grow.

Unfortunately, the inherent lagging nature of the employment rebound has several consequences that add considerable uncertainty to the current economic forecast. Employment, at least the wages and salaries from employment, is highly correlated with household consumption, which is in turn a driver for many other elements of the economy. Current consumption helps form the expectations for future consumption demand, which in turn drives business decisions like equipment purchases. Second, uncertainty about employment has a dampening effect on two of the largest consumer super-sectors – housing and vehicles. This uncertainty is compounded by the aftermath of the financial crisis, as consumer lending has tightened especially as it pertains to higher-risk loans.

Finally, it should be noted that recoveries from financial recessions are more pernicious than others, and the period of recovery tends to be flat, or U-shaped. In a more structural recession, the economy can rebound more quickly when the structural problem that created the downturn is reconciled. Financial recession leave deeper scars due to the loss of household wealth and the severe impact on consumer sentiment. The period of recovery is thus extended as consumers must dig out of the hole left behind by the loss of household wealth before becoming a reliable and sustained source of aggregate demand.

Kentucky's Economy

Kentucky personal income increased by \$5.5 billion or 4.0 percent over the first quarter of FY10. Kentucky personal income outperformed US personal income during the first quarter of FY11 and also managed to weather the recession with smaller losses. From peak to trough, the US lost a net 3.0 percent in personal income, while Kentucky lost only 1.5 percent net. Kentucky has experienced six consecutive adjacent-quarter increases in personal income since the recession, while the US has had only four such increases. This is not typical, as Kentucky typically lags the US (for most variables) coming out of recessions.

Kentucky wages and salaries, which make up 50.7 percent of personal income, increased by 2.9 percent in the first quarter of FY11. This is the sixth consecutive quarter of adjacent-quarter growth for wages and salaries. Growth has tamed in the first quarter of FY11 compared to the second half of FY10, where growth was 1.2 and 1.4 percent respectively. The first quarter of FY11 grew by 0.1 percent over the fourth quarter of FY10. The recession really began when Kentucky's personal income plummeted in the third quarter of FY09. Wages and salaries fell by an astounding 3.0 percent in that one quarter. Wages and salaries finally surpassed its previous peak in the fourth quarter of FY10, five quarters after the devastating loss.

Kentucky nonagricultural employment increased by a modest 0.5 percent over the first quarter of FY10. The changes among the supersectors were also small. The biggest winner in both absolute and percentage terms was business services employment which rose 7,800 jobs, or 4.6 percent, since the first quarter of FY10. The biggest loser in both absolute and percentage terms was construction employment which lost 4,700 jobs, or 6.6 percent.

Despite the positive position relative to the US, the recession still had a profound effect on Kentucky nonagricultural employment. From peak to trough, Kentucky lost 113,700 seasonally adjusted jobs during the recession. That is a 6.1 percent net loss in jobs. In the last two quarters, nonagricultural employment has increased by a net 12,400 seasonally adjusted jobs. This is particularly descriptive of the condition of Kentucky employment. Kentucky nonagricultural employment reached 1,831,800 in October 2000; this was the peak preceding the 2001 recession. The most recent peak, preceding the 2007 recession, occurred in January 2008 with 1,871,200 employed. So from peak to peak, Kentucky only gained a net of 39,400 jobs, or 2.2 percent additional jobs above the 2000 peak level. The 2007 recession has been so devastating to Kentucky employment, that even after two quarters of job growth, Kentucky is still 12,600 jobs below the trough from eight years ago.

Manufacturing employment, which makes up 11.9 percent of nonagricultural employment in Kentucky, has grown slightly in the last two quarters. During the 2001 recession, Kentucky manufacturing employment shed 47,500 jobs [May 2000 to April 2003]. Following the 2001 recession, there was no identifiable recovery for manufacturing jobs in Kentucky. Other than a few irregular fluctuations, manufacturing employment was flat or slightly declining from 2003 to 2008. From 2008 until February of 2010, Kentucky shed just over 45,000 additional manufacturing jobs due to the 2007 recession. It is therefore encouraging that first quarter FY11 manufacturing employment is 211,100. That is a net increase of 3,600 jobs since the trough in the third quarter of FY10. This is the first identifiable improvement in manufacturing employment since early 2000.

The various supersectors of employment in Kentucky shared pretty evenly in the losses from the 2007 recession. The largest supersector, trade, transportation and utilities fell by a net 27,300 seasonally adjusted jobs, 7.1 percent, from peak to trough. The second largest loser in absolute terms was the construction sector, which lost 20,600 jobs from peak to trough. Construction was also the largest percentage loser, losing 23.9 percent from peak to trough. Education and health services employment was the least affected sector falling only three times in the last three years. Each time it fell it was only by a small measure. Manufacturing employment was affected the most, in terms of most declines. Manufacturing employment declined for 11 consecutive quarters during the recession. It declined by 15 quarters with only one intervening quarterly improvement.

There are many similarities between the state and national outlooks. Most notably, personal income rebounds before employment. Kentucky employment growth in FY11 is predicted to climb only 1.1 percent while personal income in Kentucky is expected to grow by 3.4 percent. Compared to the national forecast for the same period, the employment outlook is very similar but the rebound in personal income is slightly higher in Kentucky. If the dollar stays low, and global trading powers continue to be able to purchase US exports, then Kentucky should continue to slightly outperform the national averages and continue along the slow path of recovery.

In summary, the forecast calls for growth much in line with the projections used by the Consensus Forecasting Group during the December 2009 official estimates. Although the forecast has slowed in the past few months, the projections for many national economic aggregates have actually increased since the official estimates were rendered. All told, the main revenue drivers (employment, wages, and personal income) are very much congruous with our official estimates. The same risks that apply to the national economy exist for the state economy as well.

Long-Term Financial Planning

Debt financing of the Commonwealth is classified as either appropriation supported debt or non-appropriation supported debt. Appropriation supported debt carries the name of the Commonwealth and is either a general obligation of the state or a lease revenue obligation of an issuing agency created by the Kentucky General Assembly to finance various projects subject to state appropriation for all or a portion of the debt service on the bonds. Non-appropriation or moral obligation debt carries the name of the Commonwealth for the benefit and convenience of other entities within the state. This type of indebtedness is a special obligation of the issuer, secured and payable solely from the sources pledged for the payment thereof and does not constitute a debt, liability, obligation, or pledge of the faith and credit of the Commonwealth.

Debt Administration

The amount of debt service for general bonded debt, the ratio of this amount to total expenditures for general governmental functions, and the amount of debt per capita are useful indicators to citizens, investors, and management regarding the Commonwealth's debt position. The data for 2010 are:

	<u>Debt Service (thousands)</u>	<u>Ratio to Total General Governmental Expenditures</u>	<u>Debt Per Capita</u>
General Bonded Debt	\$719,686	3.47 %	\$1,381

No general obligation bonds were authorized or outstanding at June 30, 2010.

A detailed analysis of the Commonwealth's debt issuance during the fiscal year ended 2010 is presented in Note 15.

Major Initiatives

Fiscal year 2010 was the second fiscal year of the Commonwealth's 2009-2010 biennial period. The Commonwealth of Kentucky is one of the few states that enact a biennial budget in an even-numbered year; meaning that the FY10 budget was enacted in the 2008 Regular Session of the Kentucky General Assembly, prior to the predictions of this significant recession. The first step taken to amend the FY10 General Fund budget was done in the 2009 Regular Session of the General Assembly, that primarily addressed the FY09 revenue shortfall, but enacted several revenue measures that would increase the revenues in FY10. This action was done primarily to replace the Budget Reserve Trust Fund which was nearly depleted in balancing the FY09 budget. The Consensus Revenue Forecasting Group then revised downward the FY10 General Fund revenue estimates by about \$1 billion in the spring of 2009, a 10.7 percent revenue shortfall. The Road Fund revenues were estimated to fall short by \$239 million, a 17 percent shortfall. A Special Session of the General Assembly was called by Governor Beshear to balance the FY10 budget against these revenue shortfalls. General Fund spending was reduced in many areas of the government and supplanted by \$742 million in federal fiscal relief provided by the American Recovery and Reinvestment Act. The federal funding provided the ability to maintain the primary elementary and secondary funding formula, the SEEK program, at its enacted levels, and to enable the Medicaid program to continue to meet its obligations as enrollment swelled due to the recession. An additional \$99 million General Fund revenue shortfall was forecasted mid-year. Governor Beshear took additional spending reduction actions to balance the budget, supplemented by another \$25 million in federal fiscal relief.

Spending in FY10 declined from FY09 by 10.4 percent. This was the first time in over two generations that General Fund spending declined in two consecutive years. In crafting the budget reductions, critical areas were preserved from reductions or incurred only minor reductions. Foremost among them was the Commonwealth's primary education funding program, the SEEK program. Other areas that were not reduced were Corrections, mental health programs, contributions to pension plans, and school and state employee health insurance. Public safety programs were also not reduced as much as the rest of Kentucky state government.

In contrast to the operating budget, the Commonwealth's capital program for the 2008-10 biennial period was budgeted to include a significant level of investment. The majority of it was financed through the issuance of debt. The capital budget included \$2.0 billion in bond financed projects. The largest proportion of new project activity was directed to the Commonwealth's nine postsecondary education institutions, over \$600 million, and for road construction and related transportation investment of \$535 million. Other large areas of commitment of support were for local water and sewer infrastructure projects, over \$280 million. The School Facilities Construction Commission, which aids local school districts in new construction and renovation projects, received \$100 million in new bonds to support offers of assistance to local school districts. The capital budget for the 2008-10 biennial period followed two consecutive biennia with the largest capital spending investments the Commonwealth has ever budgeted. Despite the recessionary period, no capital projects were cancelled.

During FY10, the Commonwealth continued to implement the second year of actions initiated in 2008 to address a significant policy and financial issue, the financing of the large unfunded liabilities of its pension systems, and restructuring future employee benefits to ensure a sustainable pension system. The effort puts in place a phased-in financing plan to achieve the necessary actuarial contributions to the systems. The financing plan includes specific graduated targets over a period of years. Benefits and related eligibility requirements for future employees were significantly changed to modernize the benefits and to reduce the future pension liabilities of the systems. The federal stimulus legislation, which passed in February, 2009, also resulted in an estimated \$3 billion in additional federal funding to Kentucky, spread over three years. Nearly \$1.8 billion of that spending has occurred through the end of FY10.

FINANCIAL INFORMATION

The Accounting System

The Commonwealth's financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP). Additional discussions of the various funds and how they are reported are located in the Management Discussion and Analysis (MD&A) section of this report.

In developing and operating the Commonwealth's accounting system, management of the Commonwealth placed emphasis on the adequacy of internal accounting controls. The comprehensive internal control framework is designed to provide reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that financial records are reliable for preparing GAAP financial statements that are free from material misstatement and maintaining accountability for assets. The concept of reasonable assurance recognizes that the cost of internal controls should not exceed the benefits likely to be derived from their use, and that such cost-benefit evaluation requires estimates and judgments by management. All internal control evaluations occur within this framework.

OTHER INFORMATION

Certificate of Achievement for Excellence in Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the Commonwealth of Kentucky for its Comprehensive Annual Financial Report for the year ended June 30, 2009. This is the 23rd consecutive year the Commonwealth has received this prestigious award.

In order to be awarded a Certificate of Achievement, a governmental unit must publish an easily readable and efficiently organized comprehensive annual financial report, the contents of which conform to program standards. Such reports must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

The Certificate of Achievement is valid for a period of one year only. We believe our current report continues to conform to the Certificate of Achievement Program requirements, and we are submitting it to GFOA.

Acknowledgments

The preparation of this report could not have been accomplished without the cooperation of all branches and agencies of the Commonwealth. The professionalism demonstrated by the staffs of the Finance and Administration Cabinet's Divisions of Statewide Accounting Services and Printing, as well as the Office of the Auditor of Public Accounts, is especially noteworthy. Their combined dedication made the publication of this report possible.

Respectfully submitted,



Jonathan Miller, Secretary
Finance and Administration Cabinet



STEVEN L. BESHEAR
Governor

Commonwealth of Kentucky
FINANCE AND ADMINISTRATION CABINET
OFFICE OF THE CONTROLLER
Room 484, Capitol Annex
702 Capital Avenue
Frankfort, Kentucky 40601
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(502) 564-6597 Facsimile

JONATHAN MILLER
Secretary

EDGAR C. ROSS
Controller

December 17, 2010

The Honorable Jonathan Miller
Secretary, Finance and Administration Cabinet
383 New Capitol Annex
Frankfort, Kentucky

Dear Secretary Miller:

Pursuant to Section 48.800 (3) of the Kentucky Revised Statutes, the Comprehensive Annual Financial Report (CAFR) of the Commonwealth of Kentucky for the fiscal year ended June 30, 2010, is submitted herewith. It contains all funds of the primary government and component units for which it is financially accountable, based on the criteria developed by the Governmental Accounting Standards Board (GASB).

The basis of accounting upon which the report has been prepared complies with accounting principles generally accepted in the United States of America for state governments as prescribed by both GASB and the American Institute of Certified Public Accountants' (AICPA) publication Audits of State and Local Governments.

The information presents fairly and fully discloses the financial position and results of financial operations of the Commonwealth for the reporting period as measured by the financial activity of the various funds. All appropriate disclosures necessary to assist readers in their understanding and evaluation of Kentucky's financial condition have been included in this report.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Edgar C. Ross".

Edgar C. Ross, Controller

Certificate of Achievement for Excellence in Financial Reporting

Presented to

Commonwealth of Kentucky

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2009

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



A stylized, handwritten signature in black ink.

President

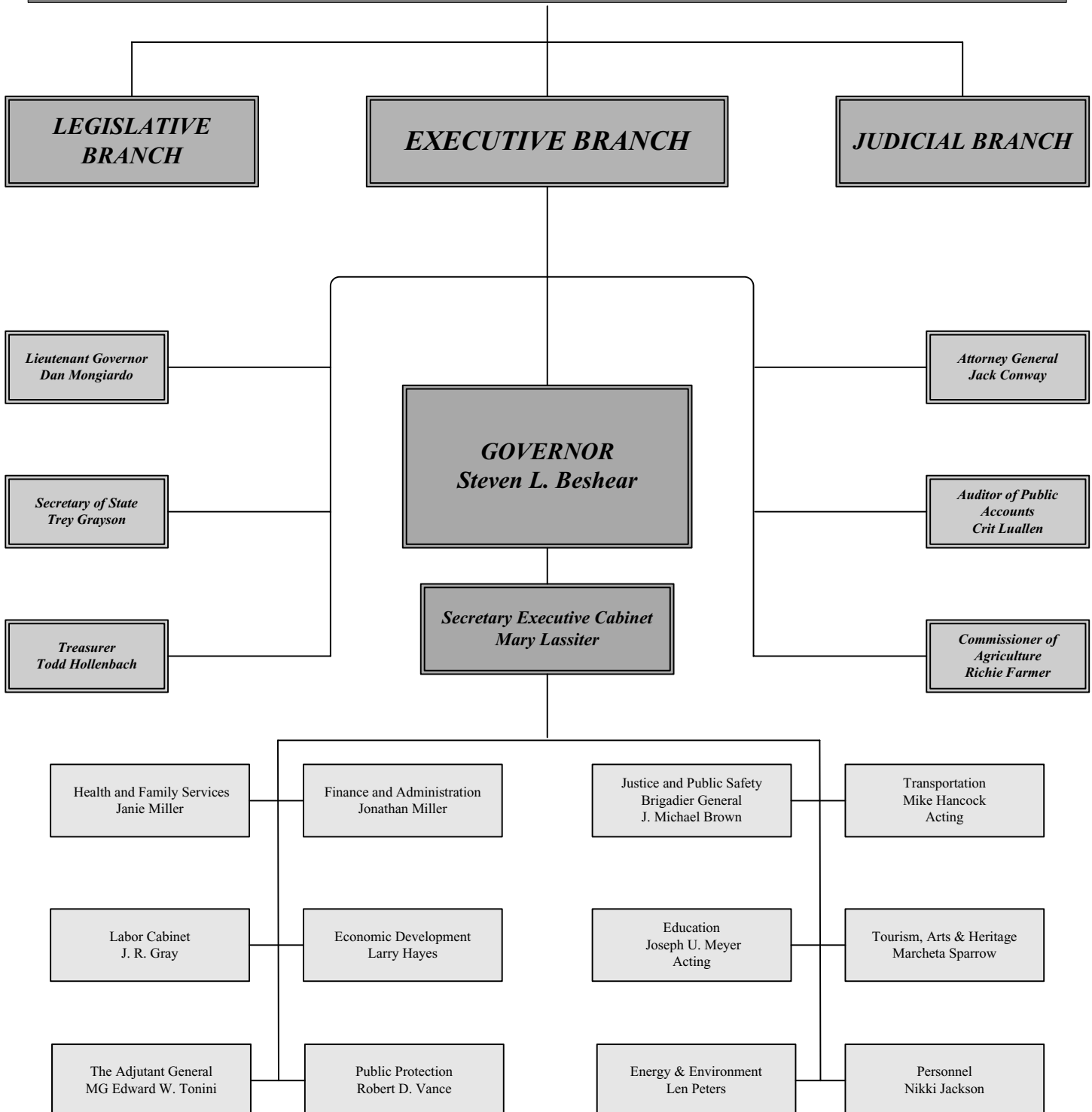
A handwritten signature in black ink, appearing to read "Jeffrey R. Enen".

Executive Director

COMMONWEALTH OF KENTUCKY

ELECTORATE OF KENTUCKY

"UNITED WE STAND, DIVIDED WE FALL"



*Principal Officials at June 30, 2010

FINANCIAL SECTION



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
The Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Kentucky, as of and for the year ended June 30, 2010, which collectively comprise the Commonwealth's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Commonwealth's management. Our responsibility is to express opinions on these financial statements based on our audit.

We did not audit the financial statements of some component units and funds that comprise the Commonwealth of Kentucky. Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those component units and funds is based upon the reports of the other auditors. Those component units and funds were:

Certain portions of the Governmental Funds including:

- Debt Service Fund - Turnpike Authority of Kentucky
- Special Revenue Fund - Turnpike Authority of Kentucky

Certain portions of the Proprietary Funds including:

- Within the Insurance Administration Fund:
 - Kentucky Coal Workers' Pneumoconiosis Fund
 - Kentucky Workers' Compensation Fund
 - Petroleum Storage Tank Environmental Assurance Fund
- Kentucky Lottery Corporation

Certain portions of the Internal Service Funds within the Risk Management Fund including:

- State Workers' Compensation Program
- Transportation Cabinet's Self-Insured Workers' Compensation Trust Program

Certain Fiduciary Funds including:

- Kentucky Retirement System
- Kentucky Teachers' Retirement System
- Judicial Form Retirement System
- Kentucky Public Employees' Deferred Compensation Authority



To the People of Kentucky
The Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
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Component Units:

- Bluegrass State Skills Corporation
- Kentucky Center for the Arts Corporation
- Kentucky Economic Development Finance Authority
- Kentucky Educational Television Authority
- Kentucky Higher Education Assistance Authority
- Kentucky Infrastructure Authority
- Kentucky Local Correctional Facilities Construction Authority
- Kentucky State Fair Board
- Kentucky Housing Corporation
- Kentucky Horse Park Foundation, Inc.
- Kentucky Higher Education Student Loan Corporation

Component Units - Colleges and Universities and related entities:

- University of Kentucky
- Eastern Kentucky University
- Morehead State University
- Northern Kentucky University
- Kentucky Community and Technical College System
- University of Louisville
- Kentucky State University
- Murray State University
- Western Kentucky University
- Kentucky Council on Postsecondary Education

Those financial statements reflect total assets and revenues of the government-wide financial statements and total assets and revenues or additions of the fund financial statements as follows:

Government-Wide Financial Statements:	Percent of Assets	Percent of Revenues
Primary Government - Governmental Activities	1.45%	.08%
Primary Government - Business-Type Activities	41.07%	22.03%
Component Units	99.30%	98.42%
Fund Financial Statements:		
Governmental Funds - Non-Major Funds	39.97%	2.08%
Proprietary Funds - Business-Type Activities - Enterprise Funds	41.05%	21.91%
Proprietary Funds - Governmental Activities - Internal Service Funds	5.60%	13.10%
Fiduciary Funds - Pension and Insurance Trust Funds	100.00%	100.00%
Component Units	99.30%	98.42%

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinion.

To the People of Kentucky
The Honorable Steven L. Beshear, Governor
Jonathan Miller, Secretary
Finance and Administration Cabinet
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In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above, present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Commonwealth of Kentucky, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we will also issue our report on our consideration of the Commonwealth of Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

The Management's Discussion and Analysis on pages 16 through 22, budgetary comparison schedules and corresponding notes on pages 114 through 129, and information about infrastructure assets reported using the modified approach on pages 130 and 131, and claims development information for entity risk pools on page 132, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commonwealth of Kentucky's basic financial statements. The combining financial statements, presented in this report on pages 136 through 189 are presented for purposes of additional analysis and are not a required part of the basic financial statements of the Commonwealth of Kentucky. This information has been subjected to the auditing procedures applied in our audit of the basic financial statements and in the audits performed by other auditors and, in our opinion, based on our audit and the reports of other auditors, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole. The Introductory and Statistical sections presented in this report on pages 2 through 10 and 192 through 213 are also presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Respectfully submitted,



Cliff Lualaba
Auditor of Public Accounts

December 17, 2010

MANAGEMENT'S DISCUSSION AND ANALYSIS

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Management's Discussion and Analysis of the Commonwealth of Kentucky's Comprehensive Annual Financial Report (CAFR) presents a discussion and analysis of the State's financial performance during the fiscal year ended June 30, 2010. It is supplementary information required by the Governmental Accounting Standards Board (GASB) and is intended to provide an easily readable explanation of the information in the basic financial statements. It should be read in conjunction with the additional information that is furnished in the letter of transmittal, which can be found preceding this narrative, and with the Commonwealth's financial statements which follow.

FINANCIAL HIGHLIGHTS - PRIMARY GOVERNMENT

Government-Wide Highlights:

The assets of the Commonwealth's governmental activities exceeded its liabilities at fiscal year ending June 30, 2010, by \$12.8 billion, a decrease of \$1.2 billion related to current year activity. Liabilities of the Commonwealth's business-type activities exceeded assets by \$800 million, a decrease in net assets of \$273 million related to current year activity. Total net assets decreased by \$1.46 billion to \$12.02 billion.

The assets of component units exceeded liabilities at fiscal year ending June 30, 2010, by \$8.02 billion, an increase of \$587 million related to current year activity.

Fund Highlights:

As of the close of FY10, the Commonwealth's governmental funds reported combined ending fund balances of \$2.15 billion, an increase of \$139 million in comparison with the prior year. Of this total amount, \$972.8 million was reserved and the balance of approximately \$1.18 billion was unreserved. The unreserved undesignated fund balance of the General Fund was \$2.5 million at June 30, 2010.

Enterprise funds reported net assets of \$(800) million, of which \$350.8 million was restricted or invested in capital assets, and the balance of \$(1.15) billion was unrestricted.

Long-Term Debt:

The Commonwealth's total long-term debt obligations (bonds and notes payable) increased by \$738.1 million to \$7.05 billion during the current fiscal year. The increase is attributable to the issuance of new debt by the Commonwealth's Primary Government to replace short-term notes used to initially fund projects, to advance refund debt outstanding to reduce future interest cost, and to fund new projects authorized and started during FY10. Additional details of these activities can be found in Note 15 beginning on Page 97.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Commonwealth's basic financial statements include: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to the financial statements. This report also includes other required supplementary information (*General and Special Revenue Fund budgetary schedules; condition and maintenance data regarding infrastructure; and claims development information*) and other supplementary information (combining financial statements). Each of these components is described below.

Government-Wide Financial Statements

The *Government-Wide Financial Statements* provide a broad view of the Commonwealth's operations in a manner similar to a private-sector business. These statements report financial information about the entire government except fiduciary activities. The statements provide both short-term and long-term information about the Commonwealth's financial position, which assists in assessing the Commonwealth's economic condition at the end of the fiscal year. These are prepared using the flow of economic resources measurement focus and the accrual basis of accounting. They take into account all revenues and expenses of the fiscal year even if no cash has been received or paid. The government-wide financial statements include two statements: The *Statement of Net Assets* shows the financial position of the Commonwealth at the end of the fiscal year. The *Statement of Activities* presents information showing how the government's financial position has changed since the beginning of the fiscal year.

Both the Statement of Net Assets and the Statement of Activities have separate sections for three different types of state programs or activities.

These three types of activities are:

Governmental Activities – The activities in this section are mostly supported by taxes and intergovernmental revenues (federal grants). Most services normally associated with State government fall into this category. Internal Service Fund balances are reported as a part of governmental activities.

Business-Type Activities – These functions normally are intended to recover all or a significant portion of their costs through user fees and charges to external users of goods and services provided by the State. The business-type activities of the Commonwealth include the operations of various Enterprise Funds as listed later in the text.

Discretely Presented Component Units – These are operations for which the Commonwealth has financial accountability but which possess certain independent qualities as well. More information on the Commonwealth's discretely presented component units can be found in Note 1, starting on Page 52.

The government-wide financial statements can be found immediately following this discussion and analysis.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Some funds are required to be established by state law or bond covenants and additional funds are established for management and fiscal control of resources.

The fund financial statements focus on activities of state government. All of the funds of the Commonwealth can be divided into three categories: Governmental Funds, Proprietary Funds, and Fiduciary Funds. It is important to note that these fund categories use different accounting approaches and should be interpreted differently.

Table 1, below, summarizes the major features of the basic financial statements and how they relate to one another.

Table 1. Major Features of the Commonwealth of Kentucky's Government-Wide and Fund Financial Statements				
	Government-Wide Financial Statements	Fund Financial Statements		
		Governmental	Proprietary	Fiduciary
Scope	Entire government (except fiduciary funds) and the Commonwealth's component units	The activities of the Commonwealth that are not proprietary or fiduciary	Activities of the Commonwealth that are similar to private businesses	Instances where the Commonwealth is the trustee for someone else's resources
Required Financial Statements	Statement of Net Assets Statement of Activities	Balance Sheet Statement of Revenues, Expenditures and Changes in Fund Balances	Statement of Fund Net Assets Statement of Revenues, Expenses, and Changes in Fund Net Assets Statement of Cash Flows	Statements of Fiduciary Net Assets Statement of Changes in Fiduciary Net Assets
Accounting Basis and Measurement Focus	Accrual accounting and economic resources measurement focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources measurement focus	Accrual accounting and economic resources measurement focus
Type of Asset/Liability Information	All assets and liabilities, both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter, no capital assets included	All assets and liabilities, both financial, and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term
Type of Inflow – Outflow Information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year and expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All revenues and expenses during the year, regardless of when cash is received or paid

Notes to the Financial Statements - Notes to the financial statements provide information necessary to fully understand the data provided in the government-wide and fund financial statements. They are an integral part of the financial statements and focus on the primary government and its activities.

Required Supplementary Information - In addition to this Management's Discussion and Analysis, which is required supplementary information, the basic financial statements are followed by a section of required supplementary information that further explains and supports the information contained in the financial statements.

Other Supplementary Information - Supplementary information includes the introductory section, combining financial statements for non-major governmental funds, non-major discretely presented component units, the individual internal service funds and fiduciary funds, schedule of fund activities, capital asset information, and the statistical section.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets

Net assets may serve as a useful indicator of a government's financial position. The Commonwealth's combined net assets (governmental and business-type activities) totaled \$12 billion at the end of 2010, as compared to \$13.5 billion at the end of the previous year.

The largest portion of the Commonwealth's net assets, \$18.8 billion, is invested in capital assets (e.g. land, infrastructures, buildings and improvements and machinery and equipment), minus any related debt, which is still outstanding and used to acquire those assets. The Commonwealth uses these capital assets to provide services to its citizens; therefore, these assets are not available for future spending.

The second largest portion of the Commonwealth's net assets, totaling \$1.2 billion, is restricted and represents resources that are subject to either external restrictions or legislative restrictions on how they may be used. The remaining balance is unrestricted net assets. The unrestricted net assets, if they have a positive value, could be used at the Commonwealth's discretion. However, the unrestricted balance is a negative \$7.9 billion; therefore funds are not available for discretionary purposes. A contributing factor to the negative balance is that liabilities are recognized on the government-wide statement of net assets when the obligation is incurred. Accordingly, the Commonwealth recognizes long-term liabilities (such as general bonded debt, compensated absences, unfunded employer pension cost, and contingent liabilities-shown in Note 15 to the financial statements) on the statement of net assets.

Table 2 below presents the Commonwealth's condensed statement of net assets as of June 30, 2010 and June 30, 2009, derived from the government-wide Statement of Net Assets.

Table 2: Condensed Statement of Net Assets (Expressed in Thousands)

	Governmental Activities		Business-Type Activities		Total	
	2010	2009	2010	2009	2010	2009
Current Assets	\$ 5,166,369	\$ 5,050,254	\$ 1,037,701	\$ 896,514	\$ 6,204,070	\$ 5,946,768
Capital Assets	21,441,106	20,969,009	341,300	330,289	21,782,406	21,299,298
Other Assets	1,767	3,005	-		1,767	3,005
Total Assets	26,609,242	25,996,833	1,379,001	1,226,803	27,988,243	27,249,071
Non Current Liabilities	11,602,000	9,920,632	2,078,069	1,650,335	13,680,069	11,570,967
Other Liabilities	2,186,062	2,096,588	101,205	103,327	2,287,267	2,199,915
Total Liabilities	13,788,062	12,017,220	2,179,274	1,753,662	15,967,336	13,770,882
Invested in Capital Assets						
Net of Related Debt	18,418,874	19,557,082	341,172	330,078	18,760,046	19,887,160
Restricted	1,206,293	1,094,433	9,646	5,615	1,215,939	1,100,048
Unrestricted	(6,803,987)	(6,646,467)	(1,151,091)	(862,552)	(7,955,078)	(7,509,019)
Total Net Assets	\$ 12,821,180	\$ 14,005,048	\$ (800,273)	\$ (526,859)	\$ 12,020,907	\$ 13,478,189

Changes in Net Assets

The revenues and expenses information, as shown in Table 3, was derived from the government-wide Statement of Activities and reflects how the Commonwealth's net assets changed during FY10. The Commonwealth received program revenues of \$13.4 billion and general revenues (including transfers) of \$9.8 billion for total revenues of \$23.2 billion during FY10. Expenses for the Commonwealth during FY10 were \$24.7 billion, which resulted in a total decrease of the Commonwealth's net assets in the amount of \$1.46 billion, net of contributions, transfers and special items.

Table 3: Condensed Statement of Activities (Expressed in Thousands)

	2010 Governmental Activities	2009 Governmental Activities	2010 Business-Type Activities	2009 Business-Type Activities	2010 Total	2009 Total
Revenues:						
Program Revenues:						
Charges for Services	\$ 970,632	\$ 981,463	\$ 4,056,372	\$ 2,765,465	\$ 5,027,004	\$ 3,746,928
Operating Grants and Contributions	7,621,275	6,575,144	3,849	363,028	7,625,124	6,938,172
Capital Grants and Contributions	773,661	550,416	0	4,633	773,661	555,049
General Revenues:						
Income Taxes	3,361,478	3,637,574			3,361,478	3,637,574
Sales Taxes	4,880,831	4,777,321			4,880,831	4,777,321
Property Taxes	504,189	534,441			504,189	534,441
Other Taxes	544,349	590,621			544,349	590,621
Investment Earnings	9,531	(9,977)	47,657	(28,261)	57,188	(38,238)
Other	420,191	358,189	37,636	48,932	457,827	407,121
Total Revenues	19,086,137	17,995,192	4,145,514	3,153,797	23,231,651	21,148,989
Expenses:						
Governmental Activities:						
General Government	4,377,373	4,632,707			4,377,373	4,632,707
Legislative and Judicial	376,743	360,872			376,743	360,872
Commerce	124,263	112,825			124,263	112,825
Education and Humanities	5,148,482	4,885,444			5,148,482	4,885,444
Human Resources	7,725,161	7,611,725			7,725,161	7,611,725
Justice	876,065	822,301			876,065	822,301
Natural Resources and Environmental Protection	192,518	195,366			192,518	195,366
Public Protection and Regulation	113,558	121,952			113,558	121,952
Transportation	1,175,210	1,331,764			1,175,210	1,331,764
Interest Expense	332,639	265,984			332,639	265,984
Business-type Activities:						
State Parks			101,861	98,795	101,861	98,795
Kentucky Lottery Corporation			568,183	619,902	568,183	619,902
Kentucky Horse Park			13,521	11,411	13,521	11,411
Kentucky Public Employees Health Plan			1,497,656	1,434,951	1,497,656	1,434,951
Insurance Administration			107,286	(18,953)	107,286	(18,953)
Unemployment Compensation			1,958,414	1,317,067	1,958,414	1,317,067
Total Expenses	20,442,012	20,340,940	4,246,921	3,463,173	24,688,933	23,804,113
Increase (Decrease) in Net Assets Before Transfers	(1,355,875)	(2,345,748)	(101,407)	(309,376)	(1,457,282)	(2,655,124)
Transfers	172,007	264,032	(172,007)	(264,032)		
Change in Net Assets	(1,183,868)	(2,081,716)	(273,414)	(573,408)	(1,457,282)	(2,655,124)
Net Assets, July 1, as restated	14,005,048	16,086,764	(526,859)	46,549	13,478,189	16,133,313
Net Assets, June 30	\$ 12,821,180	\$ 14,005,048	\$ (800,273)	\$ (526,859)	\$ 12,020,907	\$ 13,478,189

Governmental Activities:

The slowing economy, during the fiscal year, caused revenues to decline resulting in the decrease in net assets of governmental activities by \$1.2 billion or 8.46 percent. Approximately 49 percent of the governmental activities' total revenue came from taxes, while 44 percent resulted from grants and contributions (including federal aid). Table 4 below presents program expenses and revenues for governmental activities. Overall, program revenues were insufficient to cover program expenses for governmental activities. Therefore, the net program expenses of these governmental activities were supported by general revenues, mainly taxes.

Table 4 (Expressed in Thousands)

State Programs	Program Expenses	Program Revenues	Net Program Expenses (Revenue)
General Government	\$ 4,377,373	\$ 835,132	\$ 3,542,241
Legislative and Judicial	376,743	22,702	354,041
Commerce	124,263	58,158	66,105
Education and Humanities	5,148,482	1,426,960	3,721,522
Human Resources	7,725,161	5,674,974	2,050,187
Justice	876,065	171,611	704,454
Natural Resources and Environmental Protection	192,518	112,160	80,358
Public Protection and Regulation	113,558	79,030	34,528
Transportation	1,175,210	984,841	190,369
Totals	\$ 20,109,373	\$ 9,365,568	\$ 10,743,805

Business-Type Activities:

Table 5 below presents program expenses and revenues for business-type activities. The business-type activities decreased the Commonwealth's net assets by \$273 million. Program revenues generated by the operations of the State Parks, Kentucky Horse Park, and Unemployment Compensation were not sufficient to cover program expenses. General revenues were needed to support expenses of these programs. Program revenues generated by the operations of the Kentucky Lottery Corporation, Kentucky Public Employees Health Plan and Insurance Administration were sufficient to cover program expenses.

Table 5 (Expressed in Thousands)

State Programs	Program Expenses	Program Revenues	Net Program Expenses (Revenue)
State Parks	\$ 101,861	\$ 51,243	\$ 50,618
Kentucky Lottery Corporation	568,183	772,497	(204,314)
Kentucky Horse Park	13,521	8,325	5,196
Kentucky Public Employees Health Plan	1,497,656	1,548,458	(50,802)
Insurance Administration	107,286	123,408	(16,122)
Unemployment Compensation	1,958,414	1,556,290	402,124
Totals	\$ 4,246,921	\$ 4,060,221	\$ 186,700

Overall Analysis

Financial highlights for the State as a whole during fiscal year ended June 30, 2010 include the following:

- The assets of the State's governmental activities continue to exceed liabilities (net assets) at the close of the fiscal year by \$12.8 billion and the condition of the State's business-type activities worsened to the point that liabilities exceeded assets by \$800 million.
- The State's total net assets decreased during the year by \$1.46 billion. Net assets of governmental activities decreased by \$1.2 billion, while net assets of business-type activities decreased by \$273 million.
- The major reason for the decline in net assets of the governmental activities was an increase in the Employers unfunded pension contribution of \$992 million and an increase in long-term debt in the amount of \$738.1 million. The primary cause of the decrease in business-type activities net assets is the increase in unemployment benefits attributable to the nation's economic downturn.

FINANCIAL ANALYSIS OF THE COMMONWEALTH'S INDIVIDUAL FUNDS

At June 30, 2010, the Commonwealth's governmental funds reported combined ending fund balances of \$2.15 billion, an increase of \$139 million in comparison with the prior year. \$972.8 million of the fund balances are reserved for legal obligations and are not available to fund current operations. The amount available to fund current expenditures is \$1.18 billion.

General Fund

The General Fund is the primary operating fund of the Commonwealth. The fund balance at June 30, 2010, was \$79.6 million. The balance reported reflects an increase of \$50.9 million from the previously reported amount, which represents a increase of 167%. The major factor for the increase is because of an enhanced federal participation for Medicaid; thus, reducing the state's share of these expenditures.

The fund balance is segregated into reserved and unreserved amounts. The reservations of fund balance restrict those amounts for specific purposes such as: encumbrances, inventory, and capital outlay. The General Fund balance at June 30, 2010, has \$77 million as reserved fund balance and \$2.5 million unreserved. The unreserved represents the amount available for current expenditures.

The following governmental funds experienced significant changes during the year:

Major Special Revenue Funds

The major special revenue funds experienced normal cyclical changes in revenues and expenditures, except for the Federal Fund which experienced a significant increase in grant revenue as a result of the American Recovery and Reinvestment Act (ARRA), resulting in a significant increase in federal fund expenditures. The Transportation Fund experienced a slight increase in revenues due to increased tax receipts and a reduction in expenditures, again due to increased federal funds under ARRA, resulting in an increase in fund balance of \$89 million.

Proprietary Funds - The Commonwealth's proprietary funds reported net assets of \$(653.6) million, which included \$(800) million in the enterprise funds and \$146.7 million in the internal service funds. This is a total decrease in net assets of \$283.2 million from the previous year.

The overall decrease in net assets is due to increase in unemployment benefit payments within the Unemployment Compensation Fund. Benefit payments increased by \$668 million for an increase of 51.8%.

GENERAL FUND BUDGETARY HIGHLIGHTS

During the year, as the national and state economy failed to fully recover, the official revenue forecast for the General Fund was decreased. The General Fund revenues, for the year, exceeded the final budgetary estimates by approximately \$18 million. The original budgeted expenditures were decreased to accommodate revenue shortfalls. Actual expenditures for the year were approximately \$412 million less than the final budgeted amount.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets - The Commonwealth's investment in capital assets for its governmental and business-type activities as of June 30, 2010, amounts to \$22.8 billion, with accumulated depreciation of \$1 billion, leaving a net book value of \$21.8 billion. This investment in capital assets includes land, improvements, buildings, equipment, and construction in progress, infrastructure and intangibles. Infrastructure assets are normally immovable and of value only to the Commonwealth, such as roads, bridges, streets and sidewalks, drainage systems, lighting systems, and similar items.

The total increase in the Commonwealth's investment in capital assets for the current fiscal year was about 2.3 percent in terms of net book value. However, actual expenditures to purchase or construct capital assets were \$580 million for the year. Most of this amount was used to construct or reconstruct roads and bridges. Depreciation charges for the year totaled \$87.7 million. Additional information on the Commonwealth's capital assets can be found in Note 6 of the "Notes to the Financial Statements" of this report.

Infrastructure Assets – The Commonwealth has elected to utilize the “Modified Approach” as it relates to guidelines set forth in the GASB (Government Accounting Standards Board) Statement Number 34. Under this alternative method the Commonwealth expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for under the modified approach include nearly 63,000 lane miles of roads and approximately 9,000 bridges that the Commonwealth has responsibility for maintaining.

- There have been no significant changes in the condition level of infrastructure assets
- The asset condition level established by the Commonwealth has approximately been met and exceeded for the past two years.
- Actual expenditures necessary to maintain and preserve infrastructure assets at target condition levels were approximately 1 percent less than the estimate for fiscal year 2010.

A more in-depth discussion of the Commonwealth’s infrastructure assets is located in the “Required Supplemental Information” section of this report.

Debt Administration - The Office of Financial Management as established in KRS 42.4201, is responsible for the oversight of the Commonwealth’s debt. The Office develops a long-term debt plan including criteria for the issuance of debt and an evaluation of the total state debt to be incurred. Debt is issued through the State Property and Buildings Commission and the Kentucky Asset/Liability Commission.

The Commonwealth of Kentucky’s bonded debt increased by \$707.8 million to \$6.0 billion, a 13.5% increase during the current fiscal year. The major factors in this increase were the issuance of bonds to fund new capital projects and to advance refund debt outstanding to reduce future interest cost. No general obligation bonds were authorized or outstanding at June 30, 2010. Additional information on the Commonwealth’s long-term debt obligations can be found in Note 15 of the notes to the financial statements of this report.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGETS AND RATES

The unemployment rate for the Commonwealth of Kentucky is currently 10.0 percent. The October rate is down 0.7 percent compared to the October 2009 level of 10.7 percent. The national unemployment rate has also trimmed falling 0.2 percent from 9.8 percent in October 2009 to 9.6 percent in October 2010. Almost every labor sector is still struggling to rebound following the 2007 recession.

Both the national and Kentucky economies are showing signs of improvement in output and sales, but employment and wages are still stagnant. Federal money to Medicaid has helped curb the impact to the state budget. However, continued high federal budget deficits will make it increasingly unlikely that continued support will occur.

Modest growth in output is expected in FY11 and FY12. An improvement in global demand will continue to improve exports. Suppressed incomes domestically is curbing import demand and improving (albeit slowly) the US’s balance of trade. As production increases, employment and wages will eventually follow. The speed and magnitude of the recovery are dependent upon the willingness of businesses to increase workforces in response to slowly improving product-demand conditions.

Low energy prices and low interest rates will be one impetus for firms to reinvest in capital and labor. Despite historically low interest rates, credit conditions remain tight. Tight credit markets and uncertainty in the financial markets continue to limit the upside in the economy over the next biennium. Consumers are restricted by uncertain job markets and limited credit options.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Commonwealth of Kentucky’s finances for all of Kentucky’s citizens, taxpayers, customers, investors, and creditors. This financial report seeks to demonstrate the Commonwealth’s accountability for the money it receives. Questions concerning any of the information provided in this report or requests for additional information should be addressed to: Commonwealth of Kentucky, Finance and Administration Cabinet, Office of the Controller, 702 Capitol Avenue, Frankfort, KY 40601.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

COMMONWEALTH OF KENTUCKY
STATEMENT OF NET ASSETS
JUNE 30, 2010
(Expressed in Thousands)

	Primary Government			Component Units
	Governmental Activities	Business-Type Activities	Total	
Assets				
Cash and cash equivalents (Note 5)	\$ 528,783	\$ 113,010	\$ 641,793	\$ 1,414,042
Cash with fiscal agents (Note 5)	79,931	97,561	177,492	
Investments, net of amortization (Note 5)	1,560,061	168,841	1,728,902	2,521,809
Invested security collateral	332,091		332,091	
Receivables, net (Note 4)	2,103,521	239,752	2,343,273	4,389,746
Notes receivable	5,312		5,312	
Capital lease receivable (Note 4)	425,990		425,990	
Internal balances (Note 7)	(51,738)	51,738		
Inventories	62,771	2,321	65,092	34,666
Prepaid expenses	12,857	725	13,582	19,627
Deferred charges	74,556		74,556	71,264
Deferred outflow of resource-interest rate swap (Note 15)	32,234		32,234	
Restricted assets:				
Temporarily restricted:				
Cash and cash equivalents (Note 5)				656,258
Investments (Note 5)		363,753	363,753	955,106
Capital assets (Note 6):				
Land	164,125	21,845	185,970	251,193
Improvements other than buildings	15,600	112,686	128,286	263,819
Buildings	1,179,513	240,981	1,420,494	5,333,887
Machinery and equipment	581,845	59,518	641,363	1,733,037
Other capital assets				105,152
Easements and other intangibles	121,604	2,322	123,926	
Less: Accumulated depreciation and amortization	(867,763)	(215,442)	(1,083,205)	(3,344,938)
Construction in progress	2,227,496	119,390	2,346,886	797,838
Infrastructure	18,018,686		18,018,686	
Total Capital Assets	21,441,106	341,300	21,782,406	5,139,988
Other assets	1,767		1,767	919,874
Total Assets	26,609,242	1,379,001	27,988,243	16,122,380
Liabilities				
Accounts payable (Note 4)	1,385,846	80,541	1,466,387	433,299
Tax refunds payable	338,745		338,745	
Unearned revenue	97,146	18,864	116,010	192,708
Other liabilities		1,800	1,800	133,473
Liabilities from restricted assets				6,438
Obligations under securities lending	332,091		332,091	
Derivative instrument-interest rate swap (Note 15)	32,234		32,234	
Noncurrent liabilities:				
Due within one year (Note 15)	606,708	244,762	851,470	820,666
Due in more than one year (Note 15)	10,995,292	1,833,307	12,828,599	6,517,996
Total Liabilities	13,788,062	2,179,274	15,967,336	8,104,580
Net Assets				
Invested in capital assets, net of related debt	18,418,874	341,172	18,760,046	3,438,783
Restricted for:				
Debt service	197,802		197,802	361,730
Capital projects	295,781	2,715	298,496	222,224
Highways	712,710		712,710	
Other purposes (Note 1)		6,931	6,931	2,406,085
Unrestricted	(6,803,987)	(1,151,091)	(7,955,078)	1,588,978
Total Net Assets	\$ 12,821,180	\$ (800,273)	\$ 12,020,907	\$ 8,017,800

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

COMMONWEALTH OF KENTUCKY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government:				
Governmental Activities:				
General government	\$ 4,377,373	\$ 384,050	\$ 436,377	\$ 14,705
Legislative and judicial	376,743	20,226	2,476	
Commerce	124,263	40,657	17,234	267
Education and humanities	5,148,482	55,926	1,371,034	
Human resources	7,725,161	103,025	5,567,178	4,771
Justice	876,065	21,641	144,726	5,244
Natural resources and environmental protection	192,518	41,123	71,037	
Public protection and regulation	113,558	73,066	5,964	
Transportation	1,175,210	230,918	5,249	748,674
Interest expense	332,639			
Total Governmental Activities	20,442,012	970,632	7,621,275	773,661
Business-Type Activities:				
State Parks	101,861	50,802	441	
Kentucky Lottery Corporation	568,183	772,497		
Kentucky Horse Park	13,521	6,880	1,445	
Kentucky Public Employees Health Plan	1,497,656	1,548,458		
Insurance Administration	107,286	121,445	1,963	
Unemployment Compensation	1,958,414	1,556,290		
Total Business-Type Activities	4,246,921	4,056,372	3,849	
Total Primary Government	\$ 24,688,933	\$ 5,027,004	\$ 7,625,124	\$ 773,661
Component Units:				
Authorities:				
Kentucky Housing Corporation	\$ 347,410	\$ 185,237	\$ 204,236	\$
Kentucky Higher Education Student Loan Corporation	51,321	63,476		
Universities, Colleges, & Related Entities:				
University of Kentucky	2,114,979	1,365,667	470,786	44,046
University of Louisville	859,935	433,034	172,813	
Kentucky Community and Technical College System	645,431	107,009	86,621	
Other component units	1,820,283	668,652	426,318	89,944
Total Component Units	\$ 5,839,359	\$ 2,823,075	\$ 1,360,774	\$ 133,990
General Revenues (Note 1):				
Sales and gross receipt tax				
Individual income tax				
Corporate income tax				
Property tax				
License and privilege tax				
Severance tax				
Inheritance and estate tax				
Miscellaneous taxes				
Unrestricted grants and contributions				
Unrestricted investment earnings				
Gain on sale of capital assets				
Miscellaneous general				
Transfers				
Total General Revenues and Transfers				
Change in Net Assets				
Net Assets at July 1, as Restated (Note 2)				
Net Assets at June 30				

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Net (Expense) Revenue and Changes in Net Assets			
Primary Government		Totals	Component Units
Governmental Activities	Business-Type Activities		
\$ (3,542,241)	\$	\$ (3,542,241)	
(354,041)		(354,041)	
(66,105)		(66,105)	
(3,721,522)		(3,721,522)	
(2,050,187)		(2,050,187)	
(704,454)		(704,454)	
(80,358)		(80,358)	
(34,528)		(34,528)	
(190,369)		(190,369)	
(332,639)		(332,639)	
(11,076,444)		(11,076,444)	
	(50,618)	(50,618)	
	204,314	204,314	
	(5,196)	(5,196)	
	50,802	50,802	
	16,122	16,122	
	(402,124)	(402,124)	
	(186,700)	(186,700)	
(11,076,444)	(186,700)	(11,263,144)	
			\$ 42,063
			12,155
			(234,480)
			(254,088)
			(451,801)
			(635,369)
			(1,521,520)
4,880,831		4,880,831	
3,125,824		3,125,824	
235,654		235,654	
504,189		504,189	
29,198		29,198	
325,077		325,077	
38,058		38,058	
152,016		152,016	
9,365		9,365	604,948
9,531	47,657	57,188	121,750
22,682	1,844	24,526	267
388,144	35,792	423,936	1,381,923
172,007	(172,007)		
9,892,576	(86,714)	9,805,862	2,108,888
(1,183,868)	(273,414)	(1,457,282)	587,368
14,005,048	(526,859)	13,478,189	7,430,432
\$ 12,821,180	\$ (800,273)	\$ 12,020,907	\$ 8,017,800

GOVERNMENTAL FUNDS FINANCIAL STATEMENTS

Major Funds

General Fund

The General Fund is the Commonwealth's operating fund and accounts for financial resources appropriated by the General Assembly that are not required to be accounted for in other funds.

Transportation Fund

The Transportation Fund Accounts for activities related to the construction, preservation, and maintenance of roads.

Federal Fund

The Federal Fund accounts for monies received from the federal government to be spent on specific programs and operations.

Agency Revenue Fund

The Agency Revenue Fund accounts for revenues and expenditures of restricted taxes, fees, and charges related to a particular function or activity. The General Assembly usually appropriates this fund.

Capital Projects Fund

The Capital Projects Fund accounts for financial resources appropriated by the General Assembly for the acquisition, construction, or renovation of major capital facilities, and for the acquisition of major equipment other than that financed by proprietary funds, certain trust funds, and university and college funds.

Debt Service Fund

The Debt Service Fund accounts for the payment of principal, interest, and administrative fees due on general long-term issues of the Commonwealth and for the accumulation of financial resources used to make such payments.

Non-Major Funds

Non-Major governmental funds are presented by fund type beginning on page 136

COMMONWEALTH OF KENTUCKY
BALANCE SHEET
GOVERNMENTAL FUNDS
JUNE 30, 2010
(Expressed in Thousands)

	General	Transportation	Federal	Agency Revenue	Capital Projects	Debt Service	Non-Major Governmental Funds	Total Governmental Funds
Assets								
Cash and cash equivalents (Note 5)	\$ 117,255	\$ 46,317	\$ 1	\$ 47,888	\$ 4	\$ 1,128	\$ 276,606	\$ 489,199
Cash with fiscal agents (Note 5)						61,878		61,878
Restricted cash (Note 5)				18,053				18,053
Investments, net of amortization (Note 5)	75,804	321,579		323,571	323,578	2,806	473,794	1,521,132
Invested security collateral	38,529	75,054		66,331	66,588		85,589	332,091
Receivables, net (Note 4)	862,735	132,402	987,888	74,259	7,731	12	37,966	2,102,993
Notes receivable				4,990			322	5,312
Capital lease receivable (Note 4)						425,990		425,990
Interfunds receivable (Note 7)	16,004	575	14,161	72,470	2,703		21,762	127,675
Interfund loans receivable (Note 7)				23,800			68,300	92,100
Inventories	5,079	50,790	645	3,460			40	60,014
Total Assets	<u>\$ 1,115,406</u>	<u>\$ 626,717</u>	<u>\$ 1,002,695</u>	<u>\$ 634,822</u>	<u>\$ 400,604</u>	<u>\$ 491,814</u>	<u>\$ 964,379</u>	<u>\$ 5,236,437</u>
Liabilities and Fund Balances								
Liabilities:								
Accounts payable (Note 4)	\$ 339,002	\$ 72,943	\$ 811,907	\$ 51,932	\$ 11,530	\$	\$ 17,537	\$ 1,304,851
Tax refunds payable	338,745							338,745
Interfunds payable (Note 7)	102,546	1,633	45,022	13,896	104		15,736	178,937
Interfund loans payable (Note 7)			68,300		23,800			92,100
Obligations under securities lending	38,529	75,054		66,331	66,588		85,589	332,091
Deferred revenue	216,997	15,838	141,911	21,014	2,801	425,991	16,646	841,198
Total Liabilities	<u>1,035,819</u>	<u>165,468</u>	<u>1,067,140</u>	<u>153,173</u>	<u>104,823</u>	<u>425,991</u>	<u>135,508</u>	<u>3,087,922</u>
Fund Balances:								
Reserved for:								
Encumbrances		234,092			81,333			315,425
Statutory obligations	71,975	88,454						160,429
Inventories	5,079	50,790	645	3,460			40	60,014
Long-term receivables				4,990			322	5,312
Deposit with fiscal agents				18,053		61,878		79,931
Capital outlay					351,704			351,704
Unreserved, reported in:								
General fund	2,533							2,533
Special revenue funds		87,913	(65,090)	455,146			696,530	1,174,499
Debt service fund						3,945	131,979	135,924
Capital projects fund					(137,256)			(137,256)
Total Fund Balances	<u>79,587</u>	<u>461,249</u>	<u>(64,445)</u>	<u>481,649</u>	<u>295,781</u>	<u>65,823</u>	<u>828,871</u>	<u>2,148,515</u>
Total Liabilities and Fund Balances	<u>\$ 1,115,406</u>	<u>\$ 626,717</u>	<u>\$ 1,002,695</u>	<u>\$ 634,822</u>	<u>\$ 400,604</u>	<u>\$ 491,814</u>	<u>\$ 964,379</u>	<u>\$ 5,236,437</u>

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**RECONCILIATION OF THE BALANCE SHEET- GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2010
(Expressed in Thousands)**

Total Fund Balances - Governmental Funds	\$	2,148,515
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Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.

Land and other non-depreciable assets	261,275	
Buildings, equipment, and other depreciable assets	1,397,886	
Infrastructure	18,018,686	
Accumulated depreciation	(623,427)	
Construction in progress	<u>2,145,084</u>	21,199,504

Certain revenues are earned but not available, and therefore, are deferred in the funds.		744,706
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Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		83,673
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Internal service funds are used by management to charge the costs of Fleet Management, Computer Services, Central Printing, Prison Industries, Property Management and Risk Management to individual funds. The assets and liabilities of the internal service funds are included in governmental activities in the Statement of Net Assets.		146,691
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Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds.

Capital lease obligations	(19,633)	
Compensated absences	(215,815)	
Pollution remediation obligations	(29,231)	
Judgements and contingencies	(11,838)	
Net pension obligations	<u>(3,838,092)</u>	(4,114,609)

Long-term bonded debt is not due and payable in the current period and, therefore, is not reported in the funds. Unamortized premiums, loss on refundings, and interest payable are not reported in the funds; however, these amounts are included in the Statement of Net Assets. This is the net effect of these balances on the statement:

Bonds payable	(5,959,846)	
Notes payable	(1,089,740)	
Unamortized premiums and discounts	(238,521)	
Less deferred amounts on refundings	8,685	
Accrued interest payable	<u>(107,878)</u>	<u>(7,387,300)</u>

Net Assets of Governmental Activities	\$	<u><u>12,821,180</u></u>
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THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

COMMONWEALTH OF KENTUCKY
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	General	Transportation	Federal	Agency Revenue	Capital Projects	Debt Service	Non-Major Governmental Funds	Total Governmental Funds
Revenues								
Taxes	\$ 7,862,887	\$ 1,076,592	\$	\$ 306,000	\$	\$	\$ 120,696	\$ 9,366,175
Licenses, fees, and permits	43,360	128,285		157,370			1,372	330,387
Intergovernmental	14,500		8,303,622	38,374	25,026		24	8,381,546
Charges for services	10,082	10,277	930	572,304	11,609	36,484	162,275	803,961
Fines and forfeits	49,367	22	1,154	8,430			28,007	86,980
Interest and other investment income	7,427	187	213	6,654	13,716	5,178	11,839	45,214
Increase (decrease) in fair value of investments	(2,454)	954		555	245	(29)	579	(150)
Securities lending income	198	387		342	343		441	1,711
Other revenues	127,920	3,491	101,234	200,785	3,057		56,021	492,508
Total Revenues	<u>8,113,287</u>	<u>1,220,195</u>	<u>8,407,153</u>	<u>1,290,814</u>	<u>53,996</u>	<u>41,633</u>	<u>381,254</u>	<u>19,508,332</u>
Expenditures								
Current:								
General government	1,775,026		348,802	138,847			329,608	2,592,283
Legislative and judicial	318,064		1,777	58,561			73	378,475
Commerce	30,905		14,642	45,529			1,361	92,437
Education and humanities	3,624,631		1,374,120	34,540			70,757	5,104,048
Human resources	1,549,310		5,675,778	875,346			24,402	8,124,836
Justice	554,593		135,139	90,841			1,870	782,443
Natural resources and environmental protection	68,049		63,881	51,235			9,946	193,111
Public protection and regulation	17,764		5,637	72,788			19,668	115,857
Transportation	4,399	1,081,874	714,132	153,581			60,504	2,014,490
Debt service:								
Principal retirement						56,275	329,937	386,212
Interest and fiscal charges						221,969	84,170	306,139
Other expenditures						26,052	1,283	27,335
Securities lending expense	108	211		187	187		240	933
Capital outlay:								
Buildings					609,309			609,309
Total Expenditures	<u>7,942,849</u>	<u>1,082,085</u>	<u>8,333,908</u>	<u>1,521,455</u>	<u>609,496</u>	<u>304,296</u>	<u>933,819</u>	<u>20,727,908</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>170,438</u>	<u>138,110</u>	<u>73,245</u>	<u>(230,641)</u>	<u>(555,500)</u>	<u>(262,663)</u>	<u>(552,565)</u>	<u>(1,219,576)</u>
Other Financing Sources (Uses)								
Transfers in	369,470	9	23	491,658	38,076	216,708	839,330	1,955,274
Transfers out	(499,133)	(48,717)	(58,335)	(387,108)	(73,797)		(709,081)	(1,776,171)
Capitalized leases	10,121	3	6	52				10,182
Insurance proceeds				9,876				9,876
Issuance of bonds:								
New issues					593,875	47,320	232,131	873,326
Refunding issues						166,295	181,540	347,835
Premiums				10,943		10,912	15,587	37,442
Discounts							(2,619)	(2,619)
Issuance of notes				89,710				89,710
Payments to refunded bond escrow agent						(159,160)	(27,442)	(186,602)
Total Other Financing Sources (Uses)	<u>(119,542)</u>	<u>(48,705)</u>	<u>(58,306)</u>	<u>215,131</u>	<u>558,154</u>	<u>282,075</u>	<u>529,446</u>	<u>1,358,253</u>
Net Change in Fund Balances	50,896	89,405	14,939	(15,510)	2,654	19,412	(23,119)	138,677
Fund Balances at July 1, as restated (Note 2)	30,437	364,663	(79,938)	496,806	293,127	46,411	851,959	2,003,465
Increase (decrease) in inventories	(1,746)	7,181	554	353			31	6,373
Fund Balances at June 30	<u>\$ 79,587</u>	<u>\$ 461,249</u>	<u>\$ (64,445)</u>	<u>\$ 481,649</u>	<u>\$ 295,781</u>	<u>\$ 65,823</u>	<u>\$ 828,871</u>	<u>\$ 2,148,515</u>

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES-GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2010**
(Expressed in Thousands)

Net Change in Fund Balances-Total Governmental Funds	\$	138,677
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Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period:

Assets disposed of, net book value	(39,707)	
Donated assets, fair market value	2,224	
Buildings, equipment, and other depreciable assets	45,067	
Infrastructure	524,056	
Accumulated depreciation	<u>(58,295)</u>	473,345

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	59,380
--	--------

Certain expenditures are reported in the funds; however, they increase assets reported on the Statement of Net Assets and have been eliminated from the Statement of Activities:

Prepaid Expenses	7,350	
Inventories	<u>6,373</u>	13,723

Internal service funds are used by management to charge the costs of Fleet Management, Computer Services, Central Printing, Prison Industries, Property Management and Risk Management to individual funds. The net revenues (expense) of certain activities of the internal service funds are reported with governmental activities.	(9,791)
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Certain expenditures are reported in the funds; however, they either increase or decrease long-term liabilities reported on the Statement of Net Assets and have been eliminated from the Statement of Activities.

Capital lease payments	5,300	
Compensated absence payments	(6,801)	
Pollution remediation payments	5,293	
Litigation payments	(209)	
Excess contributions to pension funds	<u>(992,004)</u>	(988,421)

The issuance of long-term debt (e.g. bonds, leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Bond proceeds and premiums received	(1,345,694)	
Repayment of bond principal	386,212	
Payment to refunded bond escrow agent	186,602	
Accrued interest	(95,740)	
Loss on refunding	1,649	
Deferred issue costs	<u>(3,810)</u>	(870,781)

Change in Net Assets of Governmental Activities	<u>\$</u>	<u>(1,183,868)</u>
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THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

PROPRIETARY FUNDS FINANCIAL STATEMENTS

Enterprise Funds (All Major)

State Parks Fund

The State Parks Fund accounts for revenues earned and expenses incurred in the commercial operations of the Department of Parks.

Kentucky Lottery Corporation

The Kentucky Lottery Corporation, empowered by KRS 154A, administers the Kentucky State Lottery and is pursuant to amended section 226 of the Constitution of Kentucky as ratified by voters of the Commonwealth.

Kentucky Horse Park Fund

The Kentucky Horse Park Fund accounts for revenues earned and expenses incurred in the commercial operations of the Kentucky Horse Park.

Insurance Administration Fund

The Insurance Administration Fund accounts for insurance risk pools operated by the state. These include:

Workers' Compensation Fund provides benefits for workers with illnesses, which are not attributable to one employer.

Coal Workers' Pneumoconiosis provides benefits for workers with pneumoconiosis resulting from exposure to coal dust created in the severance or processing of coal.

Petroleum Storage Tank Environmental Assurance Program provides for the cleanup of leaking underground storage tanks in amounts that exceed the insurance required of the owners and operators.

Mine Subsidence Insurance Program provides coverage against losses arising out of or due to mine subsidence within the Commonwealth.

Bond Pool Program provides coverage to reclaim surface mined land when the permit holder has forfeited bonds posted for such purpose.

Kentucky Public Employees Health Insurance Fund

The Kentucky Public Employees Health Insurance Fund accounts for the revenues and expenses incurred in the commercial operation of the health insurance program for state employees, teachers and retirees.

Unemployment Compensation Fund

The Unemployment Compensation Fund accounts for assessed employer contributions and related unemployment compensation payments.

Internal Service Funds

Individual fund statements for the Internal Service Funds, whose combined totals are presented on this statement, begin on page146

COMMONWEALTH OF KENTUCKY
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
JUNE 30, 2010
(Expressed in Thousands)

	Business-Type Activities-		
	State Parks	Kentucky Lottery Corporation	Kentucky Horse Park
Assets			
Current assets:			
Cash and cash equivalents (Note 5)	\$ 3,860	\$ 14,807	\$ 1,242
Cash on deposit with the Federal government (Note 5)			
Investments, net of amortization (Note 5)		28,280	
Receivables, net (Note 4)	626	30,679	746
Interfunds receivable (Note 7)	165		
Inventories	1,579	93	649
Prepaid expenses	55	605	
Total Current Assets	6,285	74,464	2,637
Noncurrent assets:			
Restricted investments (Note 5)			2,373
Investments, net of amortization (Note 5)	7,960	84,431	
Receivables, net		4,594	65
Capital assets (Note 6):			
Land	16,950	442	4,453
Improvements other than buildings	92,380	375	19,931
Buildings	204,882	7,330	28,769
Machinery and equipment	14,335	39,438	4,150
Easements and other intangibles	2,322		
Less: Accumulated depreciation and amortization	(147,839)	(40,655)	(25,908)
Construction in progress	42,671		76,719
Total Capital Assets	225,701	6,930	108,114
Total Noncurrent Assets	233,661	95,955	110,552
Total Assets	239,946	170,419	113,189
Liabilities			
Current liabilities:			
Accounts payable (Note 4)	3,516	10,589	3,096
Judgments payable	6		
Interfunds payable (Note 7)	541		33
Claims liability (Note 15)			
Claims adjustment liability (Note 15)			20
Capital lease obligations (Note 10) (Note 15)	45		
Prize liability		47,062	
Compensated absences (Note 15)	2,680	1,026	301
Deferred revenue	2,248		71
Other liabilities			
Total Current Liabilities	9,036	58,677	3,521
Noncurrent liabilities:			
Claims liability (Note 15)			
Claims adjustment liability (Note 15)			
Capital lease obligations (Note 10) (Note 15)	42		20
Prize liability		75,934	
Compensated absences (Note 15)	2,839		295
Loans payable the Federal Government (Note 15)			
Other liabilities (Note 15)			1,165
Total Noncurrent Liabilities	2,881	75,934	1,480
Total Liabilities	11,917	134,611	5,001
Net Assets			
Invested in capital assets, net of related debt	225,613	6,930	108,074
Restricted for:			
Capital projects			2,715
Other purposes (Note 1)			
Unrestricted	2,416	28,878	(2,601)
Total Net Assets	\$ 228,029	\$ 35,808	\$ 108,188

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Enterprise Funds				Governmental
Insurance Administration	Kentucky Public Employees Health Plan	Unemployment Compensation	Totals June 30, 2010	Activities- Internal Service Funds
\$ 44,871	\$ 43,139	\$ 5,091	\$ 113,010	\$ 39,586
		97,561	97,561	
			28,280	
17,430	49,075	136,537	235,093	528
27	52,444	1	52,637	1,459
			2,321	2,758
	65		725	5,508
62,328	144,723	239,190	529,627	49,839
358,105		3,275	363,753	
20,958	27,212		140,561	38,927
			4,659	
			21,845	18,285
			112,686	3,133
			240,981	264,898
1,595			59,518	115,535
			2,322	1,675
(1,040)			(215,442)	(244,336)
			119,390	82,412
555			341,300	241,602
379,618	27,212	3,275	850,273	280,529
441,946	171,935	242,465	1,379,900	330,368
888	20,491	41,961	80,541	4,676
120			126	
325			899	1,935
108,571	74,111		182,682	17,334
5,583	3,889		9,472	797
			65	4,751
			47,062	
1,229	119		5,355	3,278
		16,545	18,864	654
	635		635	
116,716	99,245	58,506	345,701	33,425
909,633			909,633	135,245
49,193			49,193	5,143
			62	7,957
			75,934	
187	102		3,423	1,907
		795,062	795,062	
			1,165	
959,013	102	795,062	1,834,472	150,252
1,075,729	99,347	853,568	2,180,173	183,677
555			341,172	218,384
			2,715	
6,931			6,931	
(641,269)	72,588	(611,103)	(1,151,091)	(71,693)
\$ (633,783)	\$ 72,588	\$ (611,103)	\$ (800,273)	\$ 146,691

COMMONWEALTH OF KENTUCKY
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	Business-Type Activities-		
	State Parks	Kentucky Lottery Corporation	Kentucky Horse Park
Operating Revenues:			
Charges for sales and services:			
State parks sales and services	\$ 52,066	\$	\$
Lottery sales		772,497	
Horse park admissions and sales			6,880
Insurance receipts			
Unemployment insurance receipts			
Internal service fund receipts			
Other services	1,004		1,445
Total Operating Revenues	53,070	772,497	8,325
Operating Expenses:			
Personal services	55,771		5,360
Utilities, rental, and other services	15,449	1,289	2,517
Commodities and supplies	17,599		2,222
Grants and subsidies			
Depreciation and amortization	10,280	1,368	759
Travel	370	94	
Reinsurance expense			
Claims expense			
Claims adjustment expense			
Prize expense		470,993	
Other expenses		84,855	2,639
Total Operating Expenses	99,469	558,599	13,497
Operating Income (Loss)	(46,399)	213,898	(5,172)
Nonoperating Revenues (Expenses):			
Gain (loss) on sale of capital assets	(2,381)	17	(8)
Interest and other investment income		7,259	
Increase (decrease) in fair value of investments	(7)	(612)	70
Interest expense	(11)	(7,113)	(2)
Other revenues (expenses)		(2,471)	(14)
Total Nonoperating Revenues (Expenses)	(2,399)	(2,920)	46
Income (Loss) before Capital Contributions and Transfers	(48,798)	210,978	(5,126)
Capital contributions			16,630
Transfers in	38,766		11,062
Transfers out	(387)	(211,590)	
Change in Net Assets	(10,419)	(612)	22,566
Net Assets at July 1, as restated (Note 2)	238,448	36,420	85,622
Net Assets at June 30	\$ 228,029	\$ 35,808	\$ 108,188

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

Enterprise Funds				Governmental
Insurance Administration	Kentucky Public Employees Health Plan	Unemployment Compensation	Totals June 30, 2010	Activities- Internal Service Funds
\$	\$	\$	\$	\$
			52,066	
			772,497	
			6,880	
121,445	1,548,458		1,669,903	
		1,575,453	1,575,453	
				206,497
1,963			4,412	260
123,408	1,548,458	1,575,453	4,081,211	206,757
19,523	5,033		85,687	61,217
2,149	1,028	8	22,440	34,320
743	24		20,588	36,077
		1,958,406	1,958,406	7
142			12,549	16,794
312	9		785	113
				951
75,474	1,491,786		1,567,260	61,497
(53)	(227)		(280)	(324)
			470,993	
74			87,568	
98,364	1,497,653	1,958,414	4,225,996	210,652
25,044	50,805	(382,961)	(144,785)	(3,895)
(46)			(2,418)	(1,765)
10,831	278	688	19,056	(142)
28,995	183	(28)	28,601	(463)
			(7,126)	(671)
(8,876)	(3)		(11,364)	55
30,904	458	660	26,749	(2,986)
55,948	51,263	(382,301)	(118,036)	(6,881)
			16,630	234
21,962	3	6	71,799	6,747
(31,830)			(243,807)	(9,891)
46,080	51,266	(382,295)	(273,414)	(9,791)
(679,863)	21,322	(228,808)	(526,859)	156,482
\$ (633,783)	\$ 72,588	\$ (611,103)	\$ (800,273)	\$ 146,691

COMMONWEALTH OF KENTUCKY
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	Business-Type Activities		
	State Parks	Kentucky Lottery Corporation	Kentucky Horse Park
Cash Flows from Operating Activities			
Cash received from customers - public	\$ 52,879	\$ 722,979	\$ 6,881
Cash received from customers - state	8		
Cash payments to suppliers for goods and services	(33,424)	(530,289)	(5,500)
Cash payments for employee salaries and benefits	(56,100)	(13,012)	(5,323)
Cash payments for claims expense			
Cash payments from other sources	1,004		
Cash payments to other sources			(14)
Net Cash Provided (Used) by Operating Activities	(35,633)	179,678	(3,956)
Cash Flows from Noncapital Financing Activities			
Transfers from other funds	38,766		11,062
Transfers to other funds	(387)	(211,590)	
Net Cash Provided (Used) by Noncapital Financing Activities	38,379	(211,590)	11,062
Cash Flows from Capital and Related Financing Activities			
Acquisition and construction of capital assets	(3,954)	(604)	(4,728)
Principal paid on revenue bond maturities and equipment contracts	(60)		(23)
Interest paid on revenue bonds and equipment contracts	(11)		(2)
Proceeds from the sale of capital assets			
Net Cash Provided (Used) for Capital and Related Financing Activities	(4,025)	(604)	(4,753)
Cash Flows from Investing Activities			
Purchase of investment securities		(890)	(2,247)
Proceeds from the sale of investment securities	666	29,911	496
Interest and dividends on investments	(7)	478	
Net Cash Provided (Used) in Investing Activities	659	29,499	(1,751)
Net Increase (Decrease) in Cash and Cash Equivalents	(620)	(3,017)	602
Cash and Cash Equivalents at July 1	4,480	17,824	640
Cash and Cash Equivalents at June 30	\$ 3,860	\$ 14,807	\$ 1,242
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating income (loss)	\$ (46,399)	\$ 213,898	\$ (5,172)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:			
Depreciation and amortization	10,280	1,368	759
Miscellaneous nonoperating income (expense)		210	(14)
Change in assets and liabilities:			
(Increase) decrease in assets:			
Receivables, net	(112)	(649)	(175)
Interfund receivables	(141)		
Inventories	196	14	11
Prepaid expenses	(16)		
Other assets		(207)	(9)
Increase (decrease) in liabilities:			
Accounts payable	711	(862)	612
Interfund payables	(1,256)	2,664	33
Claims liability			
Claims adjustment liability			
Compensated absences	40	(22)	
Deferred revenue	1,074		(1)
Other liabilities	(10)	(36,736)	
Net Cash Provided (Used) by Operating Activities	\$ (35,633)	\$ 179,678	\$ (3,956)
Noncash Investing, Capital, and Financing Activities			
Change in fair value of investments	\$ (7)	\$ (612)	\$ 70
Contributions of capital assets		71	16,630
Capital assets acquired through leases			
Accretion of investments held to fund grand prizes, which increased prize liability		7,113	
Total Noncash Investing, Capital, and Financing Activities	\$ (7)	\$ 6,572	\$ 16,700

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

- Enterprise Funds				Governmental Activities - Internal Service Funds
Insurance Administration	Kentucky Public Employees Health Plan	Unemployment Compensation	Totals June 30, 2010	
\$ 123,882	\$ 199,930	\$ 1,547,809	\$ 2,654,360	\$ 63,439
	1,328,900		1,328,908	147,624
(3,900)	(80,576)	(8)	(653,697)	(70,453)
(19,575)	(2,603)		(96,613)	(60,775)
(98,785)	(1,443,217)		(1,542,002)	(58,899)
1,811	30,207		33,022	316
(10,895)	(3)	(1,468,881)	(1,479,793)	(1,156)
(7,462)	32,638	78,920	244,185	20,096
21,962	3	6	71,799	6,747
(31,830)			(243,807)	(9,891)
(9,868)	3	6	(172,008)	(3,144)
(80)			(9,366)	(1,993)
			(83)	(4,427)
			(13)	(673)
				345
(80)			(9,462)	(6,748)
23,108	(4,230)		15,741	(181)
6,228		7,840	45,141	9,758
10,806	278	660	12,215	(387)
40,142	(3,952)	8,500	73,097	9,190
22,732	28,689	87,426	135,812	19,394
22,139	14,450	15,226	74,759	20,192
\$ 44,871	\$ 43,139	\$ 102,652	\$ 210,571	\$ 39,586
\$ 25,044	\$ 50,805	\$ (382,961)	\$ (144,785)	\$ (3,895)
142			12,549	16,794
(8,536)	(3)		(8,343)	57
(892)	(56,402)	(26,681)	(84,911)	2,040
3,175	52,444	(1)	55,477	2,668
	94		221	(118)
			78	335
			(216)	
(710)	10,043	(3,637)	6,157	(1,611)
(2,352)			(911)	1,103
(23,311)	(14,717)		(38,028)	2,676
(53)	(227)		(280)	(324)
(39)	2		(19)	500
		(962)	111	(129)
70	(9,401)	493,162	447,085	
\$ (7,462)	\$ 32,638	\$ 78,920	\$ 244,185	\$ 20,096
\$ 28,995	\$ 183	\$ (28)	\$ 28,601	\$ (463)
			16,701	234
			7,113	5,317
\$ 28,995	\$ 183	\$ (28)	\$ 52,415	\$ 5,088

FIDUCIARY FUNDS FINANCIAL STATEMENTS

Pension (and Other Post Employment Benefit) Trust Funds account for monies received for and expenses incurred by the various public employee retirement systems administered by the Commonwealth. Kentucky uses the following pension (and other post employment benefit) trust funds:

- Kentucky Employees Retirement System**
- County Employees Retirement System**
- Judicial Retirement Plan**
- State Police Retirement System**
- Kentucky Teachers' Retirement System**
- Legislators' Retirement Plan**
- Kentucky Public Employees' Deferred Compensation Authority**

Agency funds account for monies held by the Commonwealth for custodial purposes only. Kentucky uses the following agency funds:

- Commonwealth Choice Program**
- County Fees Trust Fund**
- Special Deposit Trust Fund**

COMMONWEALTH OF KENTUCKY
STATEMENT OF FIDUCIARY NET ASSETS
ALL FIDUCIARY FUNDS
JUNE 30, 2010
(Expressed in Thousands)

	Pension (and Other Post Employment Benefit) Trust Funds	Agency Funds
Assets		
Cash and cash equivalents (Note 5)	\$ 1,517,396	\$ 229,799
Investments, net of amortization (Note 5)		96,492
Pension trust fund investments (Note 5):		
Corporate and government bonds	6,561,948	
Common stocks	15,758,824	
Mortgages	1,247,123	
Mutual funds	1,835,002	
Real estate	434,689	
Invested security collateral	2,980,373	299,764
Receivables, net	278,479	33,357
Prepaid expenses	275	
Capital assets, net	12,837	
Total Assets	<u>30,626,946</u>	<u>659,412</u>
Liabilities		
Investments - accounts payable	900	
Accounts payable	17,372	261,692
Amounts held in custody for others		97,956
Obligations under securities lending	2,980,373	299,764
Total Liabilities	<u>2,998,645</u>	<u>659,412</u>
Net Assets		
Held in trust for:		
Employee pension and post employment benefits	27,628,301	
Total Net Assets	<u>\$ 27,628,301</u>	<u>\$</u>

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

COMMONWEALTH OF KENTUCKY
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
ALL FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	Pension (and Other Post Employment Benefit) Trust Funds
Additions	
Contributions:	
Employer	\$ 1,485,889
Member	751,442
Total Contributions	<u>2,237,331</u>
Other Contributions:	
Recovery income	29,943
Medicare D receipts	34,407
Participant fees	6,308
Total Other Contributions	<u>70,658</u>
Investment income:	
Net increase (decrease) in fair value of investments	2,879,301
Interest	534,104
Dividends	136,145
Real estate operating income, net	30,968
Securities lending income, net	12,061
Total Investment Income	<u>3,592,579</u>
Less: Investment expense	70,786
Less: Securities lending expense	4,042
Net Investment Income	<u>3,517,751</u>
Total Additions	<u>5,825,740</u>
Deductions	
Benefit payments	2,944,681
Refunds	37,587
Administrative expenses	50,813
Self funding insurance costs	130,142
Healthcare premiums subsidies	223,352
Other deductions, net	239,923
Total Deductions	<u>3,626,498</u>
Change in Net Assets	2,199,242
Net Assets Held In Trust	
Net Assets at July 1	25,429,059
Net Assets at June 30	<u>\$ 27,628,301</u>

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

COMPONENT UNITS FINANCIAL STATEMENTS

Major Component Units

Kentucky Housing Corporation

The Kentucky Housing Corporation was authorized under KRS Chapter 198A in 1972 to increase the supply of housing for persons of lower income by making and participating in insured construction loans. The Corporation also makes and participates in insured mortgage loans when financing is not available from private lenders under reasonable equivalent terms and conditions.

Kentucky Higher Education Student Loan Corporation

The Kentucky Higher Education Student Loan Corporation was empowered by KRS Chapter 164A to finance state and federally insured loans to students attending eligible post secondary institutions through direct loans to students and the purchase of student loans from lenders.

Universities, Colleges, and Related Entities

The Universities, Colleges, and Related Entities account for all transactions relating to the nine State-supported universities and the community colleges and technical schools. These institutions maintain their own financial records and are not part of the central accounting system operated by the Finance and Administration Cabinet. The major component units-universities, colleges, and related entities are:

University of Kentucky

University of Louisville

Kentucky Community and Technical College System

Non-Major Component Units

The non-major component units are presented beginning on page172

COMMONWEALTH OF KENTUCKY
STATEMENT OF NET ASSETS
COMPONENT UNITS
JUNE 30, 2010
(Expressed in Thousands)

	AUTHORITIES		
	Kentucky Housing Corporation	Kentucky Higher Education Student Loan Corporation	University of Kentucky
Assets			
Current assets:			
Cash and cash equivalents (Note 5)	\$ 69,040	\$ 25,149	\$ 448,967
Restricted cash (Note 5)	341,458		
Investments, net of amortization (Note 5)		564	6,404
Accounts receivable, net	5,945	1,057	221,102
Interest receivable		54,228	3,036
Inventories			25,934
Prepaid expenses		5,507	3,632
Other current assets	42,382	785,560	3,455
Total Current Assets	458,825	872,065	712,530
Noncurrent assets:			
Restricted cash (Note 5)		101,123	44,315
Long-term investments (Note 5)	861,167	7,398	149,858
Restricted long-term investments (Note 5)			793,505
Long-term receivables, net	1,370,543	1,661,307	51,446
Deferred charges	39,857	28,586	
Capital assets (Note 6):			
Land	1,089		63,883
Improvements other than buildings			146,724
Buildings	5,036		1,599,414
Machinery and equipment	4,600	14,081	744,507
Other capital assets			
Less: Accumulated depreciation and amortization	(6,272)	(13,805)	(1,224,235)
Construction in progress			443,562
Total Capital Assets	4,453	276	1,773,855
Other assets	15,457		19,132
Total Noncurrent Assets, Net	2,291,477	1,798,690	2,832,111
Total Assets	2,750,302	2,670,755	3,544,641
Liabilities			
Current liabilities:			
Accounts payable and accruals	49,358	27,858	191,318
Current portion of long-term debt:			
Notes payable (Note 15)	39,940	543,496	4,271
Bonds payable (Note 15)	51,525	950	13,665
Capital lease obligations (Note 10)			28,094
Compensated absences (Note 16)		2,019	507
Claims liability			
Deferred revenues			66,209
Payable from restricted assets			
Other current liabilities	52,366	103	29,554
Total Current Liabilities	193,189	574,426	333,618
Noncurrent liabilities:			
Notes payable (Note 15)		703,272	21,585
Bonds payable (Note 15)	2,188,952	1,216,460	240,445
Capital lease obligations (Note 10)			446,115
Compensated absences (Note 16)			4,822
Other long-term liabilities	33,644	80,774	108,079
Total Noncurrent Liabilities	2,222,596	2,000,506	821,046
Total Liabilities	2,415,785	2,574,932	1,154,664
Net Assets			
Invested in capital assets, net of related debt	4,453	276	1,047,225
Restricted for:			
Debt service	264,076	53,937	6,374
Capital projects			53,149
Other purposes (Note 1)	16,727		668,392
Unrestricted	49,261	41,610	614,837
Total Net Assets	\$ 334,517	\$ 95,823	\$ 2,389,977

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

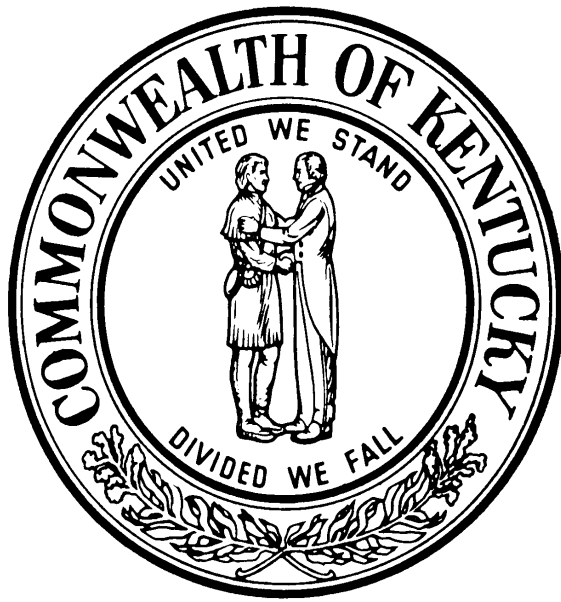
UNIVERSITIES, COLLEGES, AND RELATED ENTITIES			
University of Louisville	Kentucky Community and Technical College System	Non-Major Component Units	All Component Units Totals June 30, 2010
\$ 140,911	\$ 239,152	\$ 490,823	\$ 1,414,042
		30,403	371,861
41,757	38	260,859	309,622
74,110	31,194	205,885	539,293
	2,679	5,091	65,034
1,252		7,480	34,666
351	1,906	8,231	19,627
7,164		22,387	860,948
265,545	274,969	1,031,159	3,615,093
59,716	21,828	57,415	284,397
715,614	117,484	360,666	2,212,187
5,557		156,044	955,106
59,276	6,805	636,042	3,785,419
		2,821	71,264
75,009	24,286	86,926	251,193
8,743	10,155	98,197	263,819
931,594	656,989	2,140,854	5,333,887
408,229	162,377	399,243	1,733,037
		105,152	105,152
(570,775)	(327,275)	(1,202,576)	(3,344,938)
116,539	41,984	195,753	797,838
969,339	568,516	1,823,549	5,139,988
3,984		20,353	58,926
1,813,486	714,633	3,056,890	12,507,287
2,079,031	989,602	4,088,049	16,122,380
81,195	9,052	74,518	433,299
469		5,263	593,439
21,924		50,455	138,519
2,540	3,066	8,410	42,110
	11,095	23,137	36,758
		9,840	9,840
52,292	25,904	48,303	192,708
		6,438	6,438
11,965	22,729	16,756	133,473
170,385	71,846	243,120	1,586,584
31,701		26,271	782,829
288,313		767,494	4,701,664
20,509	22,694	87,204	576,522
		1,146	5,968
84,105	70,392	74,019	451,013
424,628	93,086	956,134	6,517,996
595,013	164,932	1,199,254	8,104,580
633,750	542,756	1,210,323	3,438,783
21,484		15,859	361,730
57,641	35,186	76,248	222,224
437,692	62,999	1,220,275	2,406,085
333,451	183,729	366,090	1,588,978
\$ 1,484,018	\$ 824,670	\$ 2,888,795	\$ 8,017,800

COMMONWEALTH OF KENTUCKY
STATEMENT OF ACTIVITIES
COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	AUTHORITIES		
	Kentucky Housing Corporation	Kentucky Higher Education Student Loan Corporation	University of Kentucky
Expenses:			
Operating and other expenses	\$ 347,410	\$ 51,321	\$ 2,114,979
Depreciation			
Total Expenses	347,410	51,321	2,114,979
Program Revenues:			
Charges for services	185,237	63,476	1,365,667
Operating grants and contributions	204,236		470,786
Capital grants and contributions			44,046
Total Program Revenues	389,473	63,476	1,880,499
Net Program (Expense) Revenue	42,063	12,155	(234,480)
General Revenues:			
Unrestricted grants and contributions			99,357
Unrestricted investment earnings			513
Gain on sale of capital assets			
Miscellaneous general		914	311,506
Total General Revenues		914	411,376
Change in Net Assets	42,063	13,069	176,896
Net Assets at July 1, As Restated (Note 2)	292,454	82,754	2,213,081
Net Assets at June 30	\$ 334,517	\$ 95,823	\$ 2,389,977

THE ACCOMPANYING NOTES TO THE FINANCIAL STATEMENTS ARE AN INTEGRAL PART OF THIS STATEMENT.

UNIVERSITIES, COLLEGES, AND RELATED ENTITIES			
University of Louisville	Kentucky Community and Technical College System	Non-Major Component Units	All Component Units Totals June 30, 2010
\$ 859,935	\$ 645,431	\$ 1,817,558	\$ 5,836,634
		2,725	2,725
859,935	645,431	1,820,283	5,839,359
433,034	107,009	668,652	2,823,075
172,813	86,621	426,318	1,360,774
		89,944	133,990
605,847	193,630	1,184,914	4,317,839
(254,088)	(451,801)	(635,369)	(1,521,520)
101,440	214,878	189,273	604,948
77,979	8,463	34,795	121,750
		267	267
155,614	285,096	628,793	1,381,923
335,033	508,437	853,128	2,108,888
80,945	56,636	217,759	587,368
1,403,073	768,034	2,671,036	7,430,432
\$ 1,484,018	\$ 824,670	\$ 2,888,795	\$ 8,017,800



NOTES TO FINANCIAL STATEMENTS

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Note 1

SIGNIFICANT ACCOUNTING POLICIES

A. Basis of Presentation

The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America for state governments as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. The financial statements for the Universities, Colleges, and Related Entities Funds have been prepared according to standards established by GASB Statement 35.

B. Financial Reporting Entity

For financial reporting purposes, the Commonwealth of Kentucky includes all fund types, departments, and agencies of the Commonwealth, as well as boards, commissions, authorities, corporations, colleges, and universities. These organizational units comprise the reporting entity of the Commonwealth and are reported in accordance with GASB 14, as amended by GASB 39. Consequently, the reporting entity includes organizations that are not legally separate from the primary government and also those that are legally separate. Organizations not legally separate are reported as part of the primary government. Legally separate organizations are reported as component units if either the Commonwealth is financially accountable for the organization or when exclusion of the organization would cause the Commonwealth's financial statements to be misleading or incomplete.

Component units may be blended or discretely presented. Blended component units are those that either provide services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as that of the primary government. Amounts related to blended component units are included as if the component units were part of the primary government. All other component units are discretely presented, or shown separately from the primary government.

Audited financial statements are available for the following blended component units: Kentucky Lottery Corporation, Kentucky Retirement System, Kentucky Teachers' Retirement System, Judicial Form Retirement System, Kentucky Public Employees' Deferred Compensation Authority and the Turnpike Authority of Kentucky. Audited financial statements are available for all discretely presented component units except the Kentucky Agricultural Finance Authority, and the Kentucky Grain Insurance Corporation. (See pages 110 and 111 for a complete list of component units' addresses.)

Blended Component Units

The following legally separate organizations provide services entirely or almost entirely to the State or otherwise exclusively, or almost exclusively, that benefit the State, and therefore, these organizations' balances and transactions are reported as though they were part of the State's primary government by using the blending method.

Kentucky Lottery Corporation (KRS 154A.020)

The Kentucky Lottery Corporation is empowered by the Legislature to administer the Kentucky state lottery games. The board of directors is comprised of one ex officio member and seven members appointed by the Governor with the advice and consent of the Senate.

Kentucky Retirement System (KRS 61.645)

The Kentucky Retirement System administers the Kentucky Employees Retirement System, the County Employees Retirement System, and the State Police Retirement System. The board consists of the Commissioner of the Department of Personnel, five members elected by the retirement systems, and three members appointed by the Governor.

Kentucky Teachers' Retirement System (KRS 161.220)

The Kentucky Teachers' Retirement System is an independent agency and instrumentality of the Commonwealth. It provides pension benefit plan coverage to employees of local school districts and educational agencies of the State. The board includes two ex officio members and seven elected members.

Judicial Form Retirement System (KRS 21.530)

The Judicial Form Retirement System accounts for monies and securities, including contributions and earnings, which will be used to pay benefits to the members of the Legislators' Retirement Plan and the Judicial Retirement Plan. The board consists of eight members; three are appointed by the Supreme Court, two by the Governor, one by the President of the Senate, one by the Speaker of the House of Representatives, and one by the President and Speaker jointly.

Turnpike Authority of Kentucky (KRS 175.430)

The Turnpike Authority is a body corporate and politic. It was created solely to perform essential governmental functions and to serve the public purposes of constructing, acquiring, financing, and operating turnpike and other road projects for the use, safety, convenience and general welfare of the traveling public, by leasing such projects to the Transportation Cabinet. The Governor and six other ex officio members comprise the authority.

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Kentucky Public Employees' Deferred Compensation Authority (KRS 18A.230 to 18A.275)

The Kentucky Employees' Deferred Compensation Authority administers two deferred compensation plans as authorized by sections 457 and 401(k) of the United States Internal Revenue Code. The plans are defined contribution plans with 762 participating employers. Under provisions of the Plans, employees of the Commonwealth and agencies thereof, including persons in the public school systems, universities, or local governments, are eligible to contribute on a pre-tax basis through payroll deductions. In no event shall the 457, 401(k) or Deemed IRA trust Funds be used for, or diverted to, purposes other than the exclusive benefit of the participants and beneficiaries or in the payment of the expenses of the Plans and Trust.

Kentucky School Facilities Construction Commission (KRS 157.617)

This commission is an independent corporate agency and instrumentality of the Commonwealth. The purpose of the commission is to assist local school districts in meeting the school construction needs of the Commonwealth in a manner that will ensure an equitable distribution of funds based upon unmet needs. One ex officio member and eight members appointed by the Governor comprise the commission.

Administrative Entities

The State Property and Buildings Commission, Kentucky Asset/Liabilities Commission, Kentucky Tobacco Settlement Trust Corporation, Kentucky Savings Bond Authority, Kentucky Gas Pipeline Authority, and the Board of Agriculture are legally separate entities of an administrative nature. They are comprised of elected and appointed officials from various state agencies, and have no cost associated with them. Therefore, there is no separate presentation for these entities.

State Property and Buildings Commission (KRS 56.450)

This commission is a public body corporate that issues all revenue bonds for state agencies, unless those agencies are specifically authorized by other provisions of the Kentucky Revised Statutes to issue bonds. The commission is composed of six ex officio members.

Kentucky Asset/Liability Commission (KRS 56.861)

This commission is a public body corporate that takes a comprehensive view of the Commonwealth's finances and develops policies and strategies to minimize the impact of fluctuating revenue receipts and interest rates on the Commonwealth's interest-sensitive assets and liabilities. The commission consists of five ex officio members.

Kentucky Tobacco Settlement Trust Corporation (KRS 248.480)

The Kentucky Tobacco Settlement Trust Corporation is a public body corporate that performs essential governmental and public functions by assisting in the implementation of the national tobacco grower settlement trust agreement. The board of directors is comprised of five ex officio members and nine members appointed by the Governor with the advice and consent of the Senate and House of Representatives.

Kentucky Savings Bond Authority (KRS 293.030)

This authority is a body corporate and politic that promotes investment by the general public in bonds of the Commonwealth and helps to reduce interest costs to the Commonwealth or its agencies. The authority consists of seven commissioners, three ex officio members and four members appointed by the Governor.

Kentucky Gas Pipeline Authority (KRS 353.752)

This authority is a body corporate and politic to provide a financing mechanism for projects that will increase severance tax revenue for Kentucky, create jobs for Kentuckians, and create a competitive advantage in environmentally responsible development. The authority consists of nine members, the Secretary of the Finance and Administration Cabinet, the Secretary of the Commerce Cabinet, the Secretary of the Environmental and Public Protection Cabinet, a member designated by the Kentucky Oil and Gas Association, a member designated by the Kentucky Society of Professional Engineers, a member designated by the Kentucky Gas Association, a citizen member appointed by the governor, and two legislative members.

Board of Agriculture (KRS 246.120)

This board is a body corporate that acts as an advisory board to the Commissioner of Agriculture, aids in the collection of information concerning crops, promulgates industrial information, and acts as an immigration committee. The board consists of five ex officio members and nine citizens of the Commonwealth appointed by the Governor.

Discretely Presented Component Units

The component units' column in the combined financial statements includes the data of the discretely presented component units described below. The component units are legally separate entities. However, there is a financial interdependence or the primary government controls the selections of the board and operations. They are reported together in a separate column to reflect that they are legally separate, but their interdependence requires that they be included as part of the reporting entity.

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Kentucky River Authority (KRS 151.710)

The Kentucky River Authority possesses the corporate powers that distinguish it as being legally separate from the Commonwealth. The authority is charged with developing comprehensive plans for the management of the Kentucky River Basin. The Governor appoints the twelve members of this authority. A financial benefit/burden exists between the Commonwealth and the Authority.

Kentucky Housing Corporation (KRS 198A.030)

The Housing Corporation is a body corporate and politic that performs essential governmental and public functions in improving and promoting the health and welfare of the citizens of the Commonwealth by the production of residential housing in Kentucky. The board of directors consists of six ex officio members and eight members appointed by the Governor. The Commonwealth has the ability to impose its will since it may appoint, hire, reassign or dismiss management responsible for operations.

Kentucky Higher Education Student Loan Corporation (KHESLC) (KRS 164A.050)

KHESLC is a body corporate and politic created to perform essential governmental and public functions and purposes in improving and promoting the educational opportunities of the citizens of the Commonwealth. The Corporation is governed by board of directors appointed by the Governor, as prescribed in KRS 164A.050. The Commonwealth provides operating support to the Corporation, creating a financial benefit/burden relationship.

Bluegrass State Skills Corporation (KRS 154.12-205)

This corporation attempts to improve and promote employment opportunities of the Commonwealth's citizens by assisting the Kentucky Cabinet for Economic Development in creating and expanding programs offering skills, training and education. The board of directors consists of six ex officio members and twelve members appointed by the Governor. The Commonwealth has the ability to impose its will and there also exists a financial benefit/burden relationship.

Kentucky State Fair Board (KRS 247.090)

This board is a body corporate that accounts for revenues earned and expenses incurred in the commercial operations of the State Fair Board. Three ex officio members and twelve members appointed by the Governor make up the fifteen-member board. The Commonwealth has the ability to impose it will and there also exists a financial benefit/burden relationship.

Kentucky Center for the Arts Corporation (KRS 153.410)

The Center for the Arts is a body corporate created by the General Assembly to promote the growth and development of the arts, convention trade, tourism and hotel industries within Jefferson County and the Commonwealth. The board consists of fifteen members appointed by the Governor. The Commonwealth provides significant operating support to the corporation, creating a financial benefit/burden relationship.

Kentucky Educational Television Authority (KET) (KRS 168.030)

KET is a public body corporate and politic that prescribes and enforces regulations governing the use of educational television and television facilities and related functions. KET also produces and transmits educational television programs. The authority consists of nine members. The Governor appoints five of these members. The board elects a liaison between the authority and the department on matters of curriculum. The Council on Postsecondary Education elects a representative of the University of Kentucky and a representative of the other state universities. The authority's members elect a chairman. A component unit of KET is the Kentucky Educational Television Foundation. The foundation is a non-profit Kentucky corporation that receives, holds and administers gifts and grants in the name of and with the approval of the authority. The Commonwealth provides significant operating support to the Authority, creating a financial benefit/burden relationship.

Kentucky Economic Development Finance Authority (KEDFA) (KRS 154.20-010)

KEDFA possesses the corporate powers necessary to distinguish it as legally separate from the Commonwealth. It was established to assist business enterprises in obtaining financial resources in order to promote the Commonwealth's long-term economic growth. The Kentucky Economic Development Partnership board appoints the five members of this authority. Additionally, other component units of the authority include The Kentucky Industrial Development Authority, the Kentucky Industrial Revitalization Authority, the Kentucky JOBS Development Authority, and the Kentucky Mortgage Insurance and Guarantee Corporation. The financial statements of the component units are combined with those of the authority. Commonwealth funds may be used for operating support to the Authority, creating a financial benefit/burden relationship.

Kentucky Higher Education Assistance Authority (KHEAA) (KRS 164.742)

This authority is a body corporate and politic that operates to improve the higher education opportunities of persons who are attending or planning to attend eligible institutions by insuring eligible student loans. The authority is governed by a board of directors consisting of 15 members appointed by the governor.

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KHEAA also oversees the Kentucky Educational Savings Plan Trust and the Commonwealth Postsecondary Education Prepaid Trust Fund, also known as Kentucky's Affordable Prepaid Tuition (KAPT), both of which are component units of KHEAA. Commonwealth funds are appropriated for program and operating support to the Authority, creating a financial benefit/burden relationship.

Kentucky Council on Postsecondary Education (KRS 164.011)

This council was established in 1997 under the direction of the Kentucky Postsecondary Education Improvement Act. The board consists of 16 members—13 citizens appointed by the Governor, one faculty member, one student, and the Commissioner of Education. This council coordinates change and improvement in Kentucky's postsecondary education system. This council strives to increase literacy, improve work-related skills, and to raise the number of students attending college and completing college degrees. The Commonwealth provides significant operating support to the Council, creating a financial benefit/burden relationship.

Kentucky Infrastructure Authority (KRS 224A.030)

This authority is a body corporate and politic created to perform essential governmental functions and to serve the local public agencies of the Commonwealth with respect to the construction and acquisition of infrastructure projects. The board consists of five ex officio members and five members appointed by the Governor. The Commonwealth provides significant operating support to the Authority, creating a financial benefit/burden relationship.

Kentucky Agricultural Finance Corporation (KAFC) (KRS 247.944)

KAFC is a corporation that seeks to improve and promote the health and general welfare of the Commonwealth's people through the advancement of agriculture. The board of directors consists of three ex officio members and nine members appointed by the Governor. The Commonwealth provides significant operating support to the Corporation, creating a financial benefit/burden relationship.

Kentucky Grain Insurance Corporation (KGIC) (KRS 251.620)

KGIC is a body politic created to promote the Commonwealth's welfare by improving the economic stability of agriculture and protecting grain producers in the event of a financial failure of a grain dealer or warehouseman. The board of directors consists of four ex officio members and six members appointed by the Commissioner of the Department of Agriculture. The Commonwealth is responsible for any insufficiency of funds to pay claims creating a financial benefit/burden relationship.

Kentucky Health Care Improvement Authority (Kentucky Access) (KRS 304.17B-003)

The Kentucky Health Care Improvement Authority was created as a body corporate and politic and is funded by assessments on insurers, enrollment fees, and Tobacco Trust Funds. Consisting of 15 board members, this authority exists for administrative purposes in the Department of Insurance and administers the Kentucky Access program. Commonwealth funds are appropriated for program and operating support to the Authority, creating a financial benefit/burden relationship.

Kentucky Local Correctional Facilities Construction Authority (KRS 441.615)

This authority is a body corporate and politic created to provide an additional and alternative method of constructing, reconstructing, improving or repairing, and financing jails and appurtenant facilities for any local government in the Commonwealth. The membership consists of six ex officio members and four members appointed by the Governor. The Commonwealth provides funds, staff assistants, facilities and materials required by the Authority in the conduct of its duties and activities, creating a financial benefit/burden relationship.

Appalachian/Kentucky Artisans Gateway Center Authority (The Kentucky Artisan Center) (KRS 148.561)

This authority is an independent, de jure municipal corporation and is a body corporate and politic. It is governed by a board of directors consisting of thirteen members. The authority operates and manages the Kentucky Artisan Center at Berea. The Commonwealth provides significant operating support to the Authority, creating a financial benefit/burden relationship.

Kentucky Horse Park Foundation, Incorporated

This foundation is a legally separate tax-exempt Kentucky corporation that receives, holds, and administers gifts and grants in the name of the Kentucky Horse Park (the Park). Although the Park does not control the timing or amount to receipts from the Foundation, the majority of resources or income thereon that the Foundation holds and invests is restricted by the donors to the activities of the Park. The Foundation's fiscal year ended May 31, 2009 and amounts included are for the year then ended. The Commonwealth provides significant operating support to the Foundation, creating a financial benefit/burden relationship.

Universities, Colleges, and Related Entities (KRS 164.350)

Each board of regents or board of trustees is appointed by the Governor, and constitutes a body corporate with the power to receive and administer revenue and property. Commonwealth funds are appropriated for program and operating support to these entities, creating a financial benefit/burden relationship.

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C. Government-Wide Financial Statements

Government-Wide Financial Statements - The Statement of Net Assets and Statement of Activities report information on all governmental and business-type activities of the primary government and its non-fiduciary component units. Governmental activities are generally characterized by their use of taxes, intergovernmental revenues, and other non-exchange revenues as funding sources. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds and fiduciary component units are not included in government-wide financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary and pension and other employee benefit trust fund financial statements. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of cash flows. Therefore, deferred revenues are only reported for receipts of prepayments or revenues collected in advance (unearned revenues). Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenues once provider-imposed eligibility requirements have been met.

The **Statement of Net Assets** presents the reporting entity's non-fiduciary assets and liabilities with the difference between the two shown as net assets. Net assets are reported in three categories:

- (1) **Invested in capital assets, net of related debt**, consist of capital assets, net of accumulated depreciation and further reduced by debt net of cash balances, for debt related to the acquisition, construction, or improvement of those assets.
- (2) **Restricted net assets** result from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation.
- (3) **Unrestricted net assets** are those net assets that do not meet the definition of restricted net assets or invested in capital assets.

When restricted assets and unrestricted assets are both available for a particular purpose, the Commonwealth's objective is to use any restricted funds first, since unrestricted funds are available for any purpose and provide for greater financial flexibility. If the rules governing restricted assets are met, restricted assets may be the only funds used. However, there may be instances in which restricted funds may only be spent in proportion to unrestricted funds spent. Assets shown as restricted for "other purposes" for the Primary Government and Component Units are as follows:

Restricted Net Assets

(Expressed in Thousands)

Restricted for Other Purposes:	Primary Government Business Type Activities	Major Component Units
Loans	\$	\$ 29,990
Education		112,111
Instruction		103,685
Scholarships and Fellowships		196,296
Research		272,831
Claims	6,931	
Other		470,897
Totals	\$ 6,931	\$ 1,185,810

A significant feature of the government-wide **Statement of Activities** is the presentation of each program's net cost. GAAP require the reporting of a program's net cost to indicate how self-sustaining the program is and to reveal the extent of reliance on other governmental units. Net cost is obtained by subtracting program expenses from program revenues. Program expenses are those costs attributable to a particular function including certain indirect costs. GAAP permit both direct and indirect program expenses to be presented together in an "Expenses" column. Therefore, indirect expenses are not specifically identified with individual functions and activities.

Program revenues are resources that derive directly from the program itself or from parties outside the government that reduce the total expense of the benefiting functional activity to arrive at the net expense of the activity. The Statement of Activities categorizes program revenues into three groups: charges for goods, services, and other benefits; operating grants and contributions; and capital grants and contributions. Revenues not considered program revenues are classified as general revenues. General revenues include all taxes regardless of type. The sales and gross receipts taxes reflected on the statement of activities for the governmental activities include various taxes that are computed using sales price or gross receipts of the reporting entity. For fiscal year 2010, the total amount of sales and gross receipts tax reported in the entity wide statements was \$4,880,831,000 and comprised of:

Sales and Gross Receipts Tax (Expressed in Thousands)

Sales and Use Tax	\$	2,830,061
Motor Fuels Tax		655,245
Motor Vehicles Usage Tax		334,208
Healthcare Provider Tax		292,564
Tobacco Products Tax		303,019
Insurance Premiums Tax		130,199
Limited Liability Entity Tax		150,767
Alcoholic Beverage Tax		111,561
Telecommunications Tax		64,342
Transient Room Tax		8,196
Parimutuel and Race Track Admission Tax		669
Total Sales and Gross Receipts Tax	\$	4,880,831

D. Fund Financial Statements

Primary Government - The accompanying financial statements are structured into three fund categories including governmental funds, proprietary funds, and fiduciary funds. Funds are characterized as either major or non-major. Major funds are those funds whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds of that category or type (governmental or enterprise funds), and whose total assets, liabilities, revenues, or expenditures/expenses are at least five percent of the corresponding total for all governmental and enterprise funds combined. The Commonwealth's major funds are identified herein.

Governmental Funds

All governmental fund statements are accounted for on the modified accrual basis of accounting and focus on the flow of current financial resources. In accordance with the modified accrual basis of accounting, revenues are recognized when they become both measurable and available to finance expenditures of the fiscal period. Revenues are considered to be available when they are either collected within the current period or their collection is expected shortly after the end of the current period in time to meet current liabilities. The State generally includes those revenues to be received up to 30 days following the end of the accounting period. Revenues expected to be collected after 30 days beyond the end of the accounting period are considered unavailable and are reported as deferred revenues. Deferred revenues also include amounts received but unearned as of June 30.

Principal revenue sources accounted for on the modified accrual basis include federal grants, sales and use tax, coal severance tax, property tax, departmental fees, income taxes, and interest income. Motor vehicle registration fees and fines and forfeitures are accounted for on the cash basis. Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) September 15, due at discount November 1, due at face value December 31, delinquent January 1 following the assessment, and subject to lien and sale February 1 following the delinquency date.

In governmental funds, where the focus is on the flow of current resources, expenditures are usually recorded at the time liabilities are incurred. Exceptions are: inventories, prepayments, and acquisition of capital assets which are recorded at the time of acquisition; and principal and interest on long-term debt, as well as compensated absences which are recorded as expenditures in the period payment is made.

A description of major governmental funds follows:

General Fund - a major fund that accounts for financial resources appropriated by the General Assembly which are not required to be accounted for in another fund.

Special Revenue Funds - a category of governmental funds that accounts for specific revenue sources, other than for major capital projects, dedicated to specific operations.

Included in this category are the transportation fund, federal fund, and agency revenue fund.

Transportation Fund - a major fund that accounts for activities related to the preservation and maintenance of roads.

Federal Fund - a major fund that accounts for monies received from the federal government to be spent on specific programs and operations.

Agency Revenue Fund - a major fund that accounts for revenues and expenditures of restricted taxes, fees, and charges related to a particular function or activity.

Capital Projects Fund - a major fund that accounts for financial resources appropriated by the General Assembly for the acquisition, construction, or renovation of major capital facilities, and for the acquisition of major equipment, other than those financed by proprietary funds and certain trust funds.

Debt Service Fund - a major fund used to account for the accumulation of resources used for the repayment of general long-term obligations principle, interest, and related administrative costs.

Proprietary Funds

Proprietary funds use the full accrual basis of accounting, recognizing revenues and expenses when they occur, regardless of the timing of the cash flows. On the statement of revenues, expenses, and changes in net assets, the term "expenses" (not "expenditures" as in governmental funds on a modified accrual basis) describes decreases in economic benefits and emphasizes the accrual basis of accounting.

Proprietary funds' revenues and expenses are divided into operating and nonoperating revenues and expenses. Although not specifically defined by GAAP, operating revenues and expenses are considered to be those resources gained and consumed to produce and deliver goods and services that are central to that fund's particular purpose. Other revenues and expenses are classified as nonoperating. Operating and nonoperating expenses are further characterized by object (personal services, depreciation expense, travel expense, etc.).

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Furthermore, the Commonwealth has adopted the provisions of GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Funds that use Proprietary Fund Accounting." As permitted by GASB Statement No. 20, the primary government's enterprise funds have elected not to adopt FASB Statements or Interpretations issued after November 30, 1989, unless the GASB specifically adopts such FASB Statements or Interpretations. Each proprietary component unit has individually made this election as disclosed in the separate audit reports.

Enterprise Funds - a category of proprietary funds used to account for those public corporations empowered by the Kentucky Revised Statutes (KRS) to provide certain services to the citizens of the Commonwealth and the operations of State agencies that provide goods or services to the general public on a user charge basis. Also included are the operations of the State's risk management pools.

State Parks Fund - a major fund that accounts for revenues earned and expenses incurred in the commercial operations of the Department of Parks.

Kentucky Lottery Corporation - a blended component unit presented as a major fund, empowered by KRS 154A to administer the Kentucky state lottery, created pursuant to amended Section 226 of the Constitution of Kentucky as ratified by the voters of the Commonwealth.

Kentucky Horse Park Fund - a major fund that accounts for revenues earned and expenses incurred in the commercial operations of the Kentucky Horse Park.

Insurance Administration Fund - a major fund that accounts for insurance risk pools operated by the State, including the Workers' Compensation Special Fund, Coal Workers' Pneumoconiosis Fund, Petroleum Storage Tank Environmental Assurance Program, Mine Subsidence Insurance Program, and Bond Pool Program.

Kentucky Public Employees Health Plan - a major fund that accounts for the revenues and expenses incurred in the commercial operation of the health insurance program for state employees, teachers, and retirees.

Unemployment Compensation Fund - a major fund that accounts for assessed employer contributions collected and related unemployment compensation payments to recipients.

Internal Service Funds - a category of proprietary funds that accounts for financing goods and services provided by one agency of the Commonwealth primarily to other agencies or governments on a cost reimbursement basis. All of the proprietary funds (where the measurement focus is on the flow of economic resources) are accounted for on the accrual basis of accounting. Accordingly, revenues are recognized when they are both earned and measurable. Expenses are recognized at the time liabilities are incurred.

Since internal service funds usually exist to support governmental activities, they are normally included as part of the governmental activities reported in the government-wide statements, rather than being presented separately.

Specific activities reported under Internal Service Funds are:

1. Management/maintenance of State motor vehicle fleet
2. Industrial prison operations
3. Rental and maintenance operations for buildings
4. Computer and related data processing services
5. Printing services
6. Fire and tornado insurance programs
7. State workers' compensation program
8. Transportation Cabinet self-insured workers' compensation trust program

Fiduciary Funds

Fiduciary funds are defined as funds used to report assets held in a trustee or agency capacity for others and which, therefore, cannot be used to support the government's own programs. This category of funds includes pension (and other employee benefit) trust funds, investment trust funds, and agency funds. The Commonwealth's fiduciary fund types are described below.

Pension and (Other Post Employment Benefit) Trust Funds - account for monies received for, expenses incurred by, and net assets available for plan benefits of the various public employee retirement systems. This fund type also accounts for monies held in deferred compensation plans. Pension Trust Funds are accounted for on the accrual basis of accounting and reported in the same manner as proprietary fund types.

Agency Funds - account for monies held by the Commonwealth for custodial purposes only. Unlike other funds, the agency fund reports assets and liabilities only; therefore, it has no measurement focus. However, the agency fund uses the accrual basis of accounting when recognizing payables and receivables.

Specific activities listed under the Commonwealth's Agency Funds are:

1. Commonwealth Choice benefit spending accounts
2. Special Deposit Trusts holding monies for specific purposes
3. County Fees Fund holding monies for Kentucky Counties with a population of 70,000 or more

As discussed previously, because the fiduciary fund resources are not available to support government programs, fiduciary funds (and component units that are fiduciary in nature) are excluded from the government-wide financial statements. Inclusion of these funds would create a misleading view of the government's position and results of activities.

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E. Presentation of Component Units

Presentation of the underlying fund types of the individual component units (described previously) reported in the discrete column is available from each respective component unit's separately issued financial statements.

The Major Discretely Presented Component Units, including Universities and Colleges are:

- Kentucky Community and Technical College System
- Kentucky Housing Corporation
- Kentucky Higher Education Student Loan Corporation
- University of Kentucky
- University of Louisville

The Non-Major Discretely Presented Component Units, including Universities, Colleges, and Related Entities are:

- Kentucky Agricultural Finance Corporation
- Kentucky Artisan Center at Berea
- Kentucky Center for the Arts Corporation
- Kentucky Economic Development Finance Authority
- Kentucky Educational Television Authority
- Kentucky Grain Insurance Corporation
- Kentucky Horse Park Foundation
- Kentucky Higher Education Assistance Authority
- Kentucky Infrastructure Authority
- Kentucky Local Correctional Facilities Construction Authority
- Kentucky River Authority
- Kentucky State Fair Board
- Bluegrass State Skills Corporation
- Kentucky Council on Postsecondary Education
- Kentucky Access
- Eastern Kentucky University
- Kentucky State University
- Morehead State University
- Murray State University
- Northern Kentucky University
- Western Kentucky University

The Commonwealth has significant transactions with its component units, primarily in providing operating funds to the universities from the State's general fund. During fiscal year 2010, the primary government provided \$293,887,000 to the University of Kentucky, \$200,554,700 to the Kentucky Community and Technical College System, \$169,896,400 to the University of Louisville, and \$185,276,450 to the Kentucky Higher Education Assistance Authority. In addition, the State received \$211,589,563 in proceeds from the Kentucky Lottery Corporation.

F. Cash and Cash Equivalents

In addition to amounts held in bank accounts, cash on hand, and imprest cash, this classification includes short-term investments with an original maturity of 90 days or less (from date of purchase). Cash equivalents are generally stated at cost, which approximates market. Deferred Compensation amounts are reported at fair value. Short-term investments classified as cash equivalents at June 30, 2010 are \$1,774,867,344.

G. Investments

This classification includes long-term investments that are stated at fair value. Investments of the Deferred Compensation Plan are reported at fair value. See Note 5 for investment details.

H. Securities Lending

Cash and securities received as collateral on securities lending transactions are reported as assets in the accompanying financial statements. Liabilities resulting from the securities lending transactions are also reported. Certain component units of the state have deposits in the Commonwealth's Investment Pool, which participates in securities lending activities. The component units' position in the pool and related securities lending assets and liabilities are reported in an agency fund.

I. Receivables

Receivables in the Commonwealth's governmental and fiduciary funds primarily consist of Federal revenues, taxes, and interest on investments. Some governmental fund revenues are not susceptible to accrual prior to receipt, including licenses, fees, permits, and similar revenues that are recognized on the cash basis. Receivables in all other funds have arisen in the ordinary course of business. Receivables in the governmental funds are reported net of allowances for uncollectibles. Disaggregation of current accounts receivable and current taxes receivable are shown in Note 4.

J. Interfund Transactions

The Commonwealth has the following types of interfund transactions: Interfund services provided and used - Charges for services rendered by one fund to another are treated as revenues of the recipient fund and expenditures or expenses of the disbursing fund.

Reimbursements - Reimbursement of expenditures made by one fund for another are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the reimbursed fund.

Transfers presented in the fund financial statements represent the flow of assets (such as goods or cash) without equivalent flow of

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assets in return or requirement of repayment. In addition, transfers are recorded when a fund receiving revenue provides it to the fund that expends the resources.

The composition of the interfund transactions is presented in Note 7. Note that at the entity-wide level, the majority of interfund activity has been eliminated. This is to avoid the “doubling up” of such transactions so that revenues and expenses will not be reported more than once.

Transfers and receivables and payables between governmental activities and business-type activities have not been eliminated. Also, remaining are the results of activities between different functional categories. For example, services provided and used are not eliminated because doing so would misstate the expenses of purchasing function and the program revenues of the selling function.

K. Inventories and Prepaid Expenses

Inventories in the governmental funds and similar trust funds consist of expendable supplies held for consumption, the costs of which are recorded as an expenditure at the time of purchase.

Prepaid expenses, including the prepayment of services to vendors (e.g., prepaid insurance), are recorded similarly in the governmental fund statements.

Reserves of fund balance have been established for the inventory balances for governmental funds. Inventories in the proprietary funds and similar trust funds consist of both expendable supplies held for consumption and the cost of goods held for resale, the costs of which are recorded as an expense as they are used.

Inventories are valued at cost (first-in, first-out, or average cost). In the Governmental Activities column of the government-wide Statement of Net Assets, inventory and prepaid expenses are reported as an asset at cost when purchased, then expensed as used.

L. Capital Assets and Depreciation

Included in capital assets are real property, equipment, intangible assets and infrastructure (e.g. roads, bridges, sidewalks and similar items). These are reported in the government-wide statement of net assets, as governmental or business type activities. Capital assets are expensed at the time of acquisition in the fund financial statements for governmental and similar trust funds.

The policy of the primary government is to capitalize assets when the useful life is greater than one year and the acquisition cost meets the capitalization threshold. The primary government capitalizes all land and infrastructure. Buildings, improvements to land, and equipment are capitalized when the acquisition cost is \$5,000 or greater. Intangible capital assets are capitalized when the cost is \$100,000 or more except

software which has a threshold of \$500,000. Component units establish their own capitalization policy and that policy may vary from that of the primary government.

The Kentucky Historical Society, Kentucky Horse Park and Kentucky Department of Parks hold and care for the State’s historical treasures. Among these are historical clothing; china; furniture and other furnishings; a variety of art and decorative art; political memorabilia; pioneer tools and equipment; guns and similar military artifacts; books, manuscripts, and photographs; musical instruments from Kentucky’s musical legends; Native American artifacts; fossilized bones and prehistory artifacts. These assets are not capitalized or depreciated as the assets could not be valued and have inexhaustible useful lives.

The primary government values capital assets at historical cost, estimated historical cost or fair market value at the time of donation. The estimate of historical cost for the primary government was based on appraised value as of June 30, 1986, indexed to the date of acquisition.

Assets are depreciated on the straight-line basis over their estimated useful lives. The table below shows the useful life by asset type for the primary government. Infrastructure assets are not being depreciated, as the Commonwealth has elected to use the modified approach, as defined by GASB statement 34. As a result, certain maintenance and preservation costs are expensed when incurred. Additions and improvements to infrastructure assets are capitalized when capacity and efficiency has increased.

Asset	Useful Life (Expressed in Years)
Land improvements	10-60
Buildings	10-75
Machinery and equipment	3-25
Infrastructure	20-40
Intangibles	2-40

It is the Commonwealth’s policy to capitalize interest expense incurred on significant assets in proprietary funds during their construction in accordance with FASB 62.

The Kentucky Center for the Arts Corporation’s discretely presented component unit financial statements for Fiscal Year 2010 do not contain the Center’s capital assets. The Finance and Administration Cabinet, Office of Statewide Accounting Services, Financial Reporting Branch, adjusted the Commonwealth of Kentucky’s Comprehensive Annual Financial Report to include the capital assets and depreciation of the Center in order to satisfy GAAP requirements.

M. Fund Equity Reserves and Designations

The Commonwealth's fund balance reserves represent those portions of fund balance (1) not appropriable for expenditure, or (2) legally segregated for a specific future use. Designated portions of fund balance represent tentative managerial plans for financial resource utilization in a future period.

N. Deferred Revenue

Deferred revenues are treated as liabilities in the governmental funds until all requirements for revenue recognition are met.

O. Long-Term Obligations

Long-term liabilities that will be financed from governmental funds are presented in the Governmental Activities column of the government-wide Statement of Net Assets. This total reported amount of long-term liabilities includes the following:

1. Payments of principal on revenue bonds which are recorded as expenditures in the Debt Service Fund.
2. Compensated absences includes accumulated unpaid vacation and compensatory time accruals. The amount accruing to proprietary funds and pension trust funds has been included in the respective funds when material. The policy of the Commonwealth is to record the cost of annual and compensatory leave. Annual leave is accumulated at amounts ranging from 7.5 to 15.0 hours per month, determined by length of service, with maximum accumulations ranging from 30 to 60 days. The calendar year is the period used for determining accumulated leave. Compensatory leave is granted to authorized employees on an hour-for-hour basis. June 30 estimated liabilities for both annual leave and compensatory leave are summarized in Note 16.

Sick leave for the Primary Government is earned one day per month with unlimited accumulation. All of the qualifying retiring employees' sick leave balances, expressed in months, shall be added to their service credit for the purpose of determining their annual retirement.

There is no liability in the accompanying financial statements for unpaid accumulated sick leave, since it is the Commonwealth's policy to record the cost of sick leave only when paid. See Note 16 for disclosure of the amount of this contingency. The component units have varying policies for compensated absences. Information regarding these policies is available in the audited financial statement of each component unit.

3. Outstanding capital lease obligations for governmental funds.
4. Judgments and contingent liabilities of governmental funds that will be paid with noncurrent resources.
5. Long-term liabilities of internal service funds.

Long-term obligations generally exclude those amounts reported as expenditures for compensated absences, judgments, contingencies, and employer pension contributions in the governmental funds since these amounts would normally be liquidated with expendable available financial resources.

Long-term liabilities of all proprietary and pension trust funds are reported in their individual fund statements. Long-term liabilities of enterprise and internal service funds are also presented in the government-wide Statement of Net Assets as a single total in the Business-type Activities and Governmental Activities columns respectively. Fiduciary funds' long-term liabilities are not displayed on the government-wide Statement of Activities.

P. Conduit Debt

This debt may take the form of certain types of limited-obligation revenue bonds, certificates of participation, or similar debt instruments issued to benefit a third party that is not a part of the reporting entity. Although conduit debt obligations bear the Commonwealth's name as issuer, the Commonwealth has no obligation for such debt beyond the resources provided by a lease or loan with the third party on whose behalf it is issued. GAAP allow the State to refrain from reporting the conduit debt and the related asset. Since the State is not legally, morally, or in any other way responsible for the repayment of conduit debt, these items are not included in the financial statements. The State has \$2,691,131,905 of conduit debt, the proceeds of which are used to promote the purposes set forth in KRS 103.200 and 103.210.

Note 2

CHANGES IN ACCOUNTING PRINCIPLES, REPORTING PRACTICES, AND PRIOR-PERIOD ADJUSTMENTS

The fund balances/net assets as previously reported have been restated or reclassified to conform to generally accepted accounting principles and to correct balances for erroneously recorded transactions.

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2010

Governmental Activities - Beginning net assets for the Commonwealth's governmental activities have been restated to include amounts which were omitted in the prior year. This includes a decrease in net assets of \$785,618,000 for the inclusion of Kentucky School Facilities Construction Commission as a blended component unit, an increase in net assets of \$9,647,000 for the implementation of GASB 51, "Accounting and Financial Reporting for Intangible Assets", and an increase of \$886,000 for prior period errors. The net effect is a decrease of \$775,085,000.

Business Type Activities - Beginning net assets for the Commonwealth's business type activities have been restated for the reason noted below in the section for Enterprise Funds. The net effect is a decrease of \$2,780,000.

Agency Revenue Fund - The Agency Revenue Fund was restated for prior period errors. The effect on fund balance is a net increase of \$886,000.

Enterprise Funds - The Insurance Administration Fund within the Enterprise Funds was restated for prior period errors. The effect on net assets is a decrease of \$2,780,000.

Non-Major Governmental Funds:

Kentucky School Facilities Construction Commission-Special Revenue Fund - The Construction Commission had a fund balance increase of \$14,902,000. The School Facilities Construction Commission was previously reported as a discretely presented component unit. After reevaluation it was determined that the School Facilities Construction Commission meets the requirements to be reported as a blended component unit. The effect on fund balance is an increase of \$14,902,000 on non-major governmental funds.

Component Units - Authorities:

Kentucky Housing Corporation - The Housing Corporation restated net assets with the implementation of a new accounting principle. The net effect on net assets was a decrease of \$3,321,000.

Kentucky School Facilities Construction Commission - The School Facilities Construction Commission was determined to be a blended component unit rather than a discretely presented component unit. The effect on net assets is an increase of \$801,118,000.

Kentucky State Fair Board - The State Fair Board restated net assets with the implementation of a new accounting principle. The net effect on net assets was an increase of \$516,000.

Kentucky Agriculture Finance Corporation - The Agriculture Finance Corporation restated net assets for a prior period error. The effect on net assets is an increase of \$279,000.

Component Units - Universities, Colleges, and Related Entities:

Western Kentucky University - Western Kentucky University restated net assets for a prior period adjustment on a pledge receivable recorded by their Foundation. The effect on net assets is a decrease of \$806,000.

Restatement of all Component Units-Universities, Colleges, and Related Entities results in an overall increase in net assets of \$797,786,000.

Note 3

STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

- A. Federal Funds** - The Federal Fund has a fund balance deficit of \$64,445,000. The deficit is a result of expenditure accruals, which will be funded in future periods.
- B. Enterprise Funds** - The Insurance Administration Fund has a net assets deficit of \$633,783,000. The accumulated claims liability is estimated by actuarial methods for the risk pools, which will be funded in future periods. The Unemployment Compensation Fund has net assets deficit of \$611,103,000, due to an increase in demand for unemployment insurance payments.
- C. Internal Service Funds** - The Risk Management Fund has a net assets deficit of \$131,410,000. The deficit is the result of accumulated claims liabilities of the Commonwealth's self-insured workers' compensation programs, and is to be funded in future periods.
- D. Component Units - Authorities** - The Kentucky Local Correctional Facilities Construction Authority has a net assets deficit of \$4,048,000 resulting from the recognition of loan commitments before financing was arranged. The Authority will issue bonds to satisfy these commitments in the future. Kentucky Access has a net assets deficit of \$1,834,000 resulting from accumulated claims liabilities that are to be funded in future periods. The Bluegrass State Skills Corporation has a net assets deficit of \$23,000 resulting from the recognition of a long-term compensated absence liability.

Note 4

**DISAGGREGATION OF ACCOUNTS PAYABLE
AND ACCOUNTS RECEIVABLE**

Accounts payable for the Commonwealth of Kentucky are amounts owed by the State as of June 30, 2010. Those liabilities that must be paid within one year are considered current. Amounts due after one year are deemed noncurrent accounts payable. Accounts receivable are amounts owed to the State. Similar to accounts payable, any amounts to be received within one year are classified as current. All other receivables are noncurrent. For Governmental Activities and Business-Type Activities, the line indicating "Accounts Payable" and "Net Receivables" are described below.

Amounts reported as "Taxes Receivable" are significant to the State. Taxes receivable report those tax amounts owed to the Commonwealth of Kentucky that remain uncollected as of June 30, 2010. All receivables are reported net of an Allowance for Uncollectibles to reflect the true value of receivables. Fines, forfeitures, and license fees are recognized as revenue when received and, therefore, do not require the recognition of accounts receivable. The "Current Taxes Receivable" for Governmental Activities and Business-Type Activities are described below.

Under the modified accrual basis of accounting, as used in the fund statements, amounts outstanding but owed at the end of the year may be recorded in one of two ways. If the receivable is measurable and expected to be collected within 30 days, revenue is recognized. However, if the receivable is not expected to be collected within 30 days, it is not considered to be available to liquidate the liabilities of the current period and will be reported as deferred revenue. Furthermore, unearned revenue is always reported as deferred revenue. Deferred revenue is reported as a liability until meeting the criteria for revenue recognition.

The State Property and Buildings Commission has issued revenue bonds and the Kentucky Asset Liability Commission has issued notes and entered into lease agreements to finance capital projects for the University of Kentucky, Kentucky State Fair Board, Kentucky Higher Education Assistance Authority and Eastern Kentucky University. The bond issues are shown as liabilities of the State Property and Buildings Commission in the entity wide financial statements. A capital lease liability is reflected in the financial statements of the various discretely presented component units, for which the debt was issued and a corresponding capital lease receivable has been recorded in the financial statements of the Commonwealth to accurately reflect the transaction. Amounts due under these lease agreements are reflected in the following table.

**Disaggregation of Payables and Receivables
(Expressed in Thousands)**

	Governmental Activities			Total Governmental Activities	Business- Type Activities	
	Major Funds	Non-major Funds	Internal Service Funds		Major Funds	Total Primary Government
Current Payables						
Personal services	\$ 137,639	\$ 571	\$ 2,499	\$ 140,709	\$ 32,779	\$ 173,488
Utilities, rental and other services	30,923	1,042	1,107	33,072	1,057	34,129
Commodities and supplies	23,469	183	652	24,304	1,983	26,287
Grants and subsidies	978,408	15,590		993,998	42,033	1,036,031
Capital outlay	82,912	59	392	83,363	89	83,452
Travel	1,570	12	4	1,586	15	1,601
Interest Payable	107,964	12	22	107,998		107,998
Other	748	68		816	2,585	3,401
Total Current Payables	<u>\$ 1,363,633</u>	<u>\$ 17,537</u>	<u>\$ 4,676</u>	<u>\$ 1,385,846</u>	<u>\$ 80,541</u>	<u>\$ 1,466,387</u>
Current Receivables						
Charges for services	\$ 41,346	\$ 18,136	\$ 528	\$ 60,010	\$ 81,164	\$ 141,174
Taxes receivable	1,985,789	24,465		2,010,254		2,010,254
Investment receivable	3,943	1,002		4,945	61	5,006
Intergovernmental revenue	999,700	1		999,701	101,638	1,101,339
Other	103,312	14,835		118,147	61,337	179,484
Allowances for uncollectables	(1,069,063)	(20,473)		(1,089,536)	(9,107)	(1,098,643)
Total Current Receivables	<u>\$ 2,065,027</u>	<u>\$ 37,966</u>	<u>\$ 528</u>	<u>\$ 2,103,521</u>	<u>\$ 235,093</u>	<u>\$ 2,338,614</u>

COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2010

Taxes Receivable
(Expressed in Thousands)

Current Taxes Receivable

Sales and gross receipts
Individual income
Corporate
Property
License and privilege
Coal severance
Inheritance and estate
Miscellaneous
Total Current Taxes Receivable

Governmental Activities		Total Primary Government
Major Funds	Non-Major Funds	
\$ 973,740	\$ 2,806	\$ 976,546
726,649		726,649
54,947		54,947
136,493		136,493
1,511	4,458	5,969
74,579		74,579
8,449	426	8,875
9,421	16,775	26,196
<u>\$ 1,985,789</u>	<u>\$ 24,465</u>	<u>\$ 2,010,254</u>

The State Property and Buildings Commission has issued revenue bonds and the Kentucky Asset Liability Commission has issued notes and entered into lease agreements to finance capital projects for the University of Kentucky, Kentucky State Fair Board, Kentucky Higher Education Assistance Authority and Eastern Kentucky University. The bond issues are shown as liabilities of the State Property and Buildings Commission in the entity wide financial

statements. A capital lease liability is reflected in the financial statements of the various discretely presented component units, for which the debt was issued and a corresponding capital lease receivable has been recorded in the financial statements of the Commonwealth to accurately reflect the transaction. Amounts due under these lease agreements are reflected in the following table.

Future debt service payments for leases receivable as of June 30, 2010, are as follows (Expressed in Thousands):

	Principal	Interest	Total
2011	\$ 19,821	\$ 19,532	\$ 39,353
2012	20,566	18,764	39,330
2013	21,432	17,901	39,333
2014	22,412	16,916	39,328
2015	23,457	15,867	39,324
2016-2020	130,718	61,651	192,369
2021-2025	122,388	30,614	153,002
2026-2030	65,196	5,251	70,447
Total leases receivable	<u>\$ 425,990</u>	<u>\$ 186,496</u>	<u>\$ 612,486</u>

Note 5**EQUITY IN POOLED CASH AND INVESTMENTS, CASH, AND INVESTMENTS**

The Commonwealth maintains an internal cash and investment pool that is available for use by all funds under the auspices of the State Investment Commission as authorized under KRS 42.500 et al. In addition, investments are separately held by several of the State's funds and component units. Legally authorized investments vary by fund but generally include: obligations of or guaranteed by the United States; obligations of any corporation of the United States Government; asset backed securities; U.S. dollar denominated corporate securities; collateralized certificates of deposit; bankers' acceptances; commercial paper; and repurchase agreements. In addition to these, pension plans and certain Component Units are permitted to purchase common stocks, corporate bonds and real property and mineral rights. The Commonwealth is also eligible to invest in reverse repurchase agreements.

PRIMARY GOVERNMENT

Custodial Credit Risk-Deposits – The custodial credit risk for deposits is the risk that in the event of a bank failure, the State's deposits may not be recovered. At year end, the carrying amount of the Commonwealth's deposits for the Primary Government, excluding pension and (OPEB) trust funds, was \$781,467,385 and the bank balance was \$766,231,820. The bank balance of the Primary Government administered by the State Treasurer was covered by Federal depository insurance or by collateral held by the Commonwealth or the Commonwealth's agent in the Commonwealth's name.

Custodial Credit Risk-Investments - Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Commonwealth will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The Commonwealth holds investments both for its own benefit and as an agent for other related parties. The major investment programs conducted for the direct benefit of the Commonwealth are administered by the Office of Financial Management. The investments held in the Commonwealth's investment pool are insured or registered, or held by the Commonwealth of Kentucky or its agent in the Commonwealth's name.

The credit risk mix of the retirement systems, and other component units, is disclosed in the financial statement footnotes of those individual entities.

Statutes require that securities underlying repurchase agreements must have a fair value of at least 102 percent of the cost of the repurchase agreement. The fair value of securities underlying

repurchase agreements fell below this required level on a few occasions during the year; however, no losses were sustained due to the fall in collateralization levels. The collateralization is monitored on a weekly basis (as specified within 200 KAR 14.081) and at any point where the collateralization falls below 102 percent of the cost of the repurchase agreement, the seller/borrower is contacted and the situation is normally rectified within two business days.

Securities Lending Program – State statutes authorize the Commonwealth to enter into securities lending agreements. The Commonwealth has entered into an agent agreement. The agent lends the Commonwealth's US Treasuries, agencies and corporate bonds in exchange for cash. The cash is invested in short-term securities. After rebate and expenses the Commonwealth receives 80 percent of the profit earned. The securities transferred are a part of the total investments reported above. Cash received as collateral on securities lending transactions and investments made with that cash are reported as assets. The Commonwealth retains the interest income on the securities being transferred. During the year, the Commonwealth earned \$1,477,620 in securities lending income. On June 30, 2010, the fair value of the securities transferred was \$708,336,719 and the fair value of the securities purchased by the Commonwealth was \$631,854,784. The collateralization requirements and monitoring procedures in the securities lending program are the same as those requirements in regard to repurchase agreements. The Commonwealth requires 102% collateralization on all repurchase agreements. The agent also indemnifies the Commonwealth from any losses from borrowers. The Commonwealth lends its securities generally on an overnight basis. Over 20 percent of the reinvested securities mature in less than one month. Thirty percent of the invested securities are in a Credit Suisse security that was received in 2009 in exchange for securities that had become impaired. The remaining purchased securities have laddered maturities covering the next three years. The securities purchased in the securities lending portfolio reset on a monthly or quarterly basis effectively matching the securities lent.

Options - The Commonwealth's investment strategy includes the use of derivatives as a tool in managing market risk and providing an opportunity for enhanced return. The Commonwealth selectively utilizes put and call options on United States Treasury securities. These options are on a covered basis, where the Commonwealth holds either cash or securities sufficient to meet the obligation, should the option be exercised. On June 30, 2010, the portfolio had no obligations under option. The Commonwealth also purchases securities that have built in covered calls (callable agency securities). The risk in holding these securities is the risk that the security can be called (bought back) by the issuing agency at par either on or after a specific date.

COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
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Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The Commonwealth has regulatory limits on investment maturities as a means of managing its exposure to fair value losses arising from rising interest rates. It also has limits on portfolio durations for the same purpose.

The primary government's investments (excluding the pension and (OPEB) trust funds) at June 30, 2010, are presented below. All investments are presented by investment type.

Cash And Investments By Type
Primary Government

I. Cash:

	Carrying Amount	Bank Balance
Cash	\$ 459,903,817	\$ 444,924,252
Cash with Fiscal Agents	79,940,885	79,940,885
Cash with Feds	97,561,473	97,561,473
Other	144,061,210	143,805,210
Total Cash	\$ 781,467,385	\$ 766,231,820

II. Investments:

Investments Managed Based On Maturities

Debt Securities

	Fair Value	< 1 year	1-5 Years
Cash Equivalents	\$ 17,390,000	\$ 17,390,000	\$
U.S. Government & Agency Obligations	138,855,535	10,621,496	128,234,039
Total	156,245,535	\$ 28,011,496	\$ 128,234,039

Investments Managed Based Upon Duration

Debt Securities

	Fair Value	Effective
Cash Equivalents	53,739,329	0.265
Fixed Income Mutual Funds	435,623,422	2.308
U.S. Government & Agency Obligations	1,041,523,953	1.154
Mortgage-Backed Securities	176,867,753	0.120
Corporate Obligations	115,965,609	1.054
Asset Backed Securities	171,876,472	0.316
Municipal Obligations	124,430,855	0.478
Other	2,374,828	5.060
Total Debt Securities	2,122,402,221	
Portfolio Effective Weighted Duration		1.174

Other Investments

Cash Equivalents	12,476,152
Fixed Income Mutual Funds	17,121,107
Common Stock	148,519,477
Securities Lending Invest	631,854,784
Total Other Investments	809,971,520
Total Investments	\$ 3,088,619,276

COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2010

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The Commonwealth is statutorily limited as to credit ratings, at the time of purchase. Commercial paper must be rated in the highest category by a nationally recognized rating agency. United States denominated corporate, Yankee, and Eurodollar securities must be rated in one of the three highest categories by a nationally recognized rating agency. Asset-backed securities must be rated in the highest category by a nationally recognized rating agency. Certificates of Deposit and Bankers acceptances must be rated in one of the three highest categories by a nationally recognized rating agency. By regulation all mortgage pass-through securities and collateralized mortgage obligations must be issued by U.S. government agencies or by government sponsored entities.

The primary government's, excluding the pension and (OPEB) trust funds, rated debt investments as of June 30, 2010, and the ratings are presented in the following table.

Investments and Credit Ratings
Primary Government

	Standard & Poor's/Moody's Credit Ratings				
	AAA/Aaa	AA/Aa	A	BBB/Baa	CCC/Caa
Cash Equivalents	\$ 28,242,907	\$	\$	\$	\$
Fixed Income Mutual Funds					
U.S. Government &					
Agency Obligations	1,258,588,874	3,803,035			
Mortgage-Backed Securities	143,065,745	5,350,032		2,439,367	6,965,857
Corporate Obligations	115,668,080	33,180,363	20,230,236	26,407,267	9,000
Common Stock					
Asset Backed Securities	128,220,016	7,242,090	16,323,875	1,138,669	10,785,581
Municipal Obligations	52,875,300	33,334,259	17,682,916	25,423,646	
Securities Lending					
Other	149,227,802				
Total Investments	\$ 1,875,888,724	\$ 82,909,779	\$ 54,237,027	\$ 55,408,949	\$ 17,760,438
	CC/Ca	D	Unrated	NA	Total Fair Value of Investments
Cash Equivalents	\$	\$	\$ 42,886,422	\$	\$ 71,129,329
Fixed Income Mutual Funds			238,761,685	9,144,684	247,906,369
U.S. Government &					
Agency Obligations			3,099,094		1,265,491,003
Mortgage-Backed Securities		19,046,752	31,735,274		208,603,027
Corporate Obligations			136,330		195,631,276
Common Stock				15,208,266	15,208,266
Asset Backed Securities	4,926,016	3,240,224			171,876,471
Municipal Obligations					129,316,121
Securities Lending				631,854,784	631,854,784
Other			2,374,828		151,602,630
Total Investments	\$ 4,926,016	\$ 22,286,976	\$ 318,993,633	\$ 656,207,734	\$ 3,088,619,276

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. Regulation limits the amount owned of any given issuer of corporate and commercial paper to \$25,000,000. At June 30, 2010, the primary government had no investments which would constitute a concentration of credit risk.

At June 30, 2010, The Turnpike Authority of Kentucky (TAK) a blended component unit had investments of \$17,390,000 in Ebury Financial LLC which would constitute a concentration of credit risk as it is more than 5% of TAK's total investments.

COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2010

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. The Commonwealth's policy historically has been to invest only in securities in U.S. denominations. The Kentucky Workers' Compensation Funding Commission (KWFCF), by its policy, now invests in international equities.

The Workers' Compensation Funding Commission's investments in foreign currency as of June 30, 2010, are presented in the following table.

Foreign Currency Risk
Primary Government (KWFCF)

Foreign Currency	Cash/Equiv	Equity	Debt	Total
British pound sterling	\$ 17,484	\$ 2,230,567	\$	\$ 2,248,051
Danish krone	275	175,483		175,758
Euro	14,349	2,584,904	115,506	2,714,759
Hong Kong dollar		338,543		338,543
Japanese yen	10,802	2,372,735		2,383,537
Singapore dollar	12	48,994		49,006
Swedish krona		91,249		91,249
Swiss franc		1,145,855		1,145,855
Total Securities Subject To				
Foreign Currency Risk	42,922	8,988,330	115,506	9,146,758
USD (Securities Held By Int'l Investment Managers)	97,578		1,290,697	1,388,275
Total Int'l Investment Securities	\$ 140,500	\$ 8,988,330	\$ 1,406,203	\$ 10,535,033

PENSION AND (OPEB) TRUST FUNDS

Custodial Credit Risk-Deposits and Investments

The custodial credit risk for deposits is the risk that in the event of a bank failure, the State's deposits may not be recovered. At year end, the carrying amount of the deposits for the Pension and (OPEB) trust funds was \$73,185,190 and the bank balance was \$73,185,190. Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the Commonwealth will not be able to recover the value of the investment or collateral securities that are

in the possession of an outside party. Of the Pension and (OPEB) Trust Funds, only Kentucky Retirement Systems has investments subject to custodial credit risk. The investments are listed as foreign currency in the amount of \$12,545,921 which are uninsured and not registered in the name of the Commonwealth but are held by the counterparty.

COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2010

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. Kentucky Revised Statutes (KRS 61.650) grants the responsibility for the investment of plan net assets to the Board of Trustees of the Retirement Systems. Each System has very specific policies regarding their investment activity. A detailed discussion of those policies can be found in the notes to the audited financial statements of the various Pension and (OPEB) Trust Funds.

The Pension and (OPEB) Trust Funds investments at June 30, 2010, are presented below. All investments are presented by investment type.

Cash and Investments by Type
Pension and (OPEB) Trust Funds

I. Cash

	Carrying Amount	Bank Balance
Cash	\$ 8,812,447	\$ 8,812,447
Money Market	33,883,391	33,883,391
Other	30,489,352	30,489,352
Total Cash	\$ 73,185,190	\$ 73,185,190

II. Investments:

Investments Managed Based On Maturities

Debt Securities	Fair Value	1-5 Years	6-15 Years	15-30 Years
Fixed Income Mutual Funds	\$ 91,446,103	\$ 91,446,103		
U.S. Government & Agency Obligations	1,055,845,554	40,578,278	1,015,267,276	
Mortgage-Backed Securities	537,026,774		297,733,549	239,293,225
Corporate Obligations	1,968,030,344	32,474,937	1,935,555,407	
Asset Backed Securities	37,860,172			37,860,172
Municipal Obligations	484,588,328		484,588,328	
Mortgage Loans	116,575,407			116,575,407
Total	4,291,372,682	\$ 164,499,318	\$ 3,733,144,560	\$ 393,728,804

Investments Managed Based Upon Duration

Debt Securities	Fair Value	Effective	Macaulay
Cash Equivalents	7,174,169	0.380	
U.S. Government & Agency Obligations	2,804,640,377	4.850	
Mortgage-Backed Securities	83,167,785	4.604	
Corporate Obligations	513,442,002	5.530	
Asset Backed Securities	80,459,816	0.930	
Asset Backed Securities	575,280,210		3.290
Municipal Obligations	57,330,669	11.360	
Mortgage Loans	17,369,425	1.450	
Guaranteed Investment Contract/Annuities	45,610,184	2.010	
Total Debt Securities	4,184,474,637		
Portfolio Weighted Effective Duration		4.896	
Portfolio Weighted Macaulay Duration			3.290

Other Investments

Cash Equivalents	307,378,278
Common Stock	14,013,794,934
Limited Partnerships	1,745,029,107
Real Estate	435,303,926
Securities Lending	2,980,373,837
Other Investments	2,304,450,980
Total Other Investments	21,786,331,062
Total Investments	\$ 30,262,178,381

COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2010

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Each Pension and (OPEB) Trust Fund has an investment policy that defines the types of investments and ratings available to them. Specific policies can be found in the notes to the audited financial statements of the individual component unit.

The Pension and (OPEB) Trust Funds, rated debt investments as of June 30, 2010, and the ratings are presented in the following table.

Investments and Credit Ratings
Pension and (OPEB) Trust Funds

Quality Rating	Amount
AAA	\$ 2,988,193,913
AA+	267,187,636
AA	482,186,569
AA-	46,648,330
A+	59,293,411
A	1,318,508,188
A-	72,715,716
BBB+	59,200,990
BBB	577,703,721
BBB-	144,675,132
BB+	2,206,904
BB	110,124,086
BB-	2,475,945
B+	4,457,839
B	142,942,043
B-	15,903,098
CCC	2,836,252
CC	1,843,910
Not Rated	70,462,745
Total Credit Risk Debt Securities	6,369,566,428
Cash Equivalents	307,378,278
U.S. Government & Agencies	2,073,805,954
Corporate Obligations	32,474,937
Common Stock	14,013,794,934
Limited Partnerships	1,745,029,107
Real Estate	435,303,926
Securities Lending	2,980,373,837
Other	2,304,450,980
Total Investments	\$ 30,262,178,381

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. With the exception of the Kentucky Public Employees Deferred Compensation Authority's (KPEDCA) there is a policy limiting the amount of investment in a single issuer to 5% or less of the investment portfolios fair value. The following KPEDCA Fund investment contracts represent 5% or more of investments held in trust for Plan benefits at June 30, 2010:

Asset Description	Amount
State Street Bank	\$ 89,994,183
JP Morgan	108,773,404
Pacific Life Insurance	99,509,452
ING Life & Annuity	104,276,721
Monumental Life	88,914,840
Rabobank Nederland	82,911,535

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2010

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. With the exception of the KPEDCA fixed contract fund the Pension and (OPEB) Trust Funds do not have a formal policy that addresses investments in foreign currency. Additional disclosures regarding the Pension and (OPEB) Trust Funds exposure to foreign currency risk can be found in the notes to the audited financial statements of the individual pension and (OPEB) trust funds.

The Pension and (OPEB) Trust Funds, investments in foreign currency as of June 30, 2010, are presented in the following table.

**Foreign Currency Risk
Pension and (OPEB) Trust Funds**

Foreign Currency	Equity	None Designated	Total
Australian dollar	\$ 34,626,039	\$	\$ 34,626,039
Brazilian Real	3,698,736		3,698,736
British pound sterling	24,653,829		24,653,829
Canadian dollar	158,378,566		158,378,566
Czech Koruna	224,868		224,868
Danish krone	14,328,588		14,328,588
Euro	(37,682,051)		(37,682,051)
Hong Kong dollar	51,188,572		51,188,572
Hungarian Forint	297,474		297,474
Indonesian Rupiah	408,823		408,823
Japanese yen	382,063,375		382,063,375
Malaysian ringgit	416,103		416,103
Mexican Peso	1,114,264		1,114,264
New Taiwan dollar	9,936,987		9,936,987
Norwegian krone	11,706,274		11,706,274
Polish Zloty	2,445,839		2,445,839
Singapore dollar	30,345,188		30,345,188
South African rand	4,362,175		4,362,175
South Korean won	3,901,638		3,901,638
Swedish krona	3,841,956		3,841,956
Swiss franc	30,641,268		30,641,268
International Equity Mutual Fund (Various Currencies)	897,094,197		897,094,197
American Funds Euro Pacific Growth Fund	56,460,164		56,460,164
Federated Int'l Small Co. Fund	12,869,369		12,869,369
Dodge & Cox International Stock Fund	12,153,436		12,153,436
Baring Asset Management	319,619,142		319,619,142
Baillie Gifford	346,703,154		346,703,154
UBS Global Asset Management	514,470,507		514,470,507
Total Securities Subject To Foreign Currency Risk	2,890,268,480		2,890,268,480
USD (Securities Held By Int'l Investment Managers)		1,151,269,621	1,151,269,621
USD in (ADR) American Depositary Receipt investments		588,765,127	588,765,127
Total Int'l Investment Securities	\$ 2,890,268,480	\$ 1,740,034,748	\$ 4,630,303,228

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2010

Securities Lending Program

Kentucky Revised Statutes permit the retirement systems to lend their securities to broker-dealers and other entities. The borrowers of the securities agree to transfer to the retirement system's custodial bank(s) either cash collateral or other securities with a fair value of 102 percent of the value of the borrowed securities. The borrowers of the securities simultaneously agree to return the borrowed securities in exchange for the collateral at a later date. At June 30, 2010, the retirement systems have no credit risk exposure to borrowers because the amounts the retirement systems owe the borrowers exceed the amounts the borrowers owe the retirement systems. The retirement systems cannot pledge or sell collateral securities unless the borrower defaults. More detail of individual policies may be found in the audited financial statements of each retirement system.

Derivatives

Derivative instruments are financial contracts whose values depend on the values of one or more underlying assets, reference rates, or financial indices. The Kentucky Retirement Systems was the only Pension and (OPEB) Trust Fund to have investment derivatives at June 30, 2010. More detail on those individual investment derivatives may be found in the audited financial statements of Kentucky Retirement Systems.

COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2010

MAJOR DISCRETELY PRESENTED COMPONENT UNITS

Custodial Credit Risk-Deposits and Investments

The custodial credit risk for deposits is the risk that in the event of a bank failure, the State's deposits may not be recovered. At year end, the carrying amount of the major discretely presented component units' deposits was \$1,150,200,521 and the bank balance was \$1,146,684,689.

Custodial credit risk for investments is the risk that, in the event of a failure of the counterparty, the component unit will not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. Each component unit has informal policies to control custodial credit risk and those policies can be found in the notes to the audited financial statements of the individual component unit.

The following table summarizes the custodial credit risk maintained for investments held by the major discretely presented component units for the fiscal year ended June 30, 2010.

Custodial Risk

Discretely Presented Major Component Units

I. Deposits

Cash And Equivalents (original maturity 90 days or less):

Deposits are uninsured and

a) uncollateralized;	\$	9,962,000
b) collateralized with securities held by the pledging financial institution; or		26,105,945
c) collateralized with securities held by the pledging financial institution's trust department or agent but not in the Commonwealth's name.		3,814,584

Total Deposits Subject To Custodial Credit Risk

\$ 39,882,529

II. Non-Current Cash And Investments:

Non-current cash and investments which are uninsured, are not registered in the name of the Commonwealth, and are held by either

(a) the counterparty or	\$	782,721,718
(b) the counterparty's trust department or agent but not in the Commonwealth's name.		1,083,543,660

Total Non-Current Cash And Investments Subject To Custodial Credit Risk

\$ 1,866,265,378

Investment Types:

	Type A (counterparty)	Type B (trust or agent)
Debt Securities		
Cash Equivalents	\$ 8,445,388	\$ 52,900,664
Fixed Income Mutual Funds		186,833,470
U.S. Government & Agency Obligations	19,862,677	91,244,920
Mortgage Backed Securities		38,000
Corporate Obligations	32,846,000	36,343,838
Municipal Obligations	2,879,293	
Pooled Real Estate Funds		54,465,974
Alternatives		134,718,922
Total Debt Securities	64,033,358	556,545,788
Other Investments		
Cash Equivalents	1,900,029	43,013,590
Fixed Income Mutual Funds	76,407,000	
Common Stock	67,807,796	415,691,178
Alternatives	354,976,000	
Real Estate	3,892,975	
Funds Held In Trust By Others		37,934,000
Other Various	213,704,560	30,359,104
Total Other Investments	718,688,360	526,997,872
Total Type A	782,721,718	Total Type B 1,083,543,660
Total Non-Current Cash And Investments Subject To Custodial Credit Risk		\$ 1,866,265,378

COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2010

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates of debt investments will adversely affect the fair value of an investment. The component units have numerous policies that limit the amounts and types of investments as a means of managing the exposure to fair value losses arising from increasing interest rates. Specific policies can be found in the notes to the audited financial statements of the individual component unit.

The following table summarizes the investments held by the major discretely presented component units for the fiscal year ended June 30, 2010.

Cash And Investments By Type
Discretely Presented Major Component Units

I. Cash

	Carrying Amount	Bank Balance
Cash	\$ 1,030,054,947	\$ 1,026,539,115
Money Market	110,848,874	110,848,874
Other	9,296,700	9,296,700
Total Cash	\$ 1,150,200,521	\$ 1,146,684,689

II. Investments:

Investments Managed Based On Maturities

Debt Securities	Fair Value	< 1 year	1-5 Years	6-10 Years	> 10 Years
Cash Equivalents	\$ 219,306,054	\$ 207,365,054	\$ 7,000,000	\$ 1,008,452	\$ 3,932,548
U.S. Government & Agency Obligations	60,442,278	37,308,101	22,715,418	418,759	
Corporate Obligations	1,893,205	333,015	1,027,247	532,943	
Guaranteed Investment Contract/Annuities	22,204,402	6,659,088	10,897,133	597,556	4,050,625
Total	303,845,939	\$ 251,665,258	\$ 41,639,798	\$ 2,557,710	\$ 7,983,173

Investments Managed Based Upon Duration

Debt Securities	Fair Value	Effective	Modified
Cash Equivalents	203,901,000		
Fixed Income Mutual Funds	89,923,368	3.500	
Fixed Income Mutual Funds	457,702,550		1.223
U.S. Government & Agency Obligations	207,194,430	0.874	
U.S. Government & Agency Obligations	50,857,615		0.759
Mortgage Backed Securities	797,007,118	0.544	
Corporate Debt	2,484,130	5.000	
Corporate Debt	34,450,633		1.490
Other Investments	1,901,671		4.929
Total Debt Securities	1,845,422,515		
Portfolio Effective Weighted Duration		0.724	
Portfolio Modified Weighted Duration			1.210

Other Investments

Fixed Income Mutual Funds	80,310,197
Common Stock	88,157,724
Corporate Bonds	41,291,788
Alternatives	489,185,441
Real Estate	3,892,975
Funds Held In Trust By Others	37,934,000
Other	150,763,177
Total Other Investments	891,535,302
Total Investments	\$ 3,040,803,756

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2010

Credit Risk of Debt Securities

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. Each component unit has an investment policy that defines the types of investments and ratings available to them. Specific policies can be found in the notes to the audited financial statements of the individual component unit.

The major discretely presented component units, investments as of June 30, 2010, and the ratings are presented in the following table.

Investments and Credit Ratings

Discretely Presented Major Component Units

	Standard & Poor's/Moody's Credit Ratings						Total Fair Value of Investments
	AAA/Aaa	AA/Aa	A	BBB/Baa	Unrated	NA	
Cash Equivalents	\$ 17,690,000	\$	\$	\$	\$ 250,489,575	\$ 161,539,675	\$ 429,719,250
Fixed Income Mutual Funds		89,923,368			534,110,221		624,033,589
U.S. Government & Agency Obligations	250,753,169				24,730,970	45,696,183	321,180,322
Mortgage Backed Securities	797,007,118						797,007,118
Corporate Obligations	11,538,041	894,981	11,126,288	34,921,046	23,540,000		82,020,356
Common Stock					67,807,796	20,349,928	88,157,724
Guaranteed Investment Contracts/Annuities				295,588	23,162,402		23,457,990
Alternatives					489,185,441		489,185,441
Real Estate					3,892,975		3,892,975
Funds Held In Trust							
By Others					37,934,000		37,934,000
Other					143,478,382	736,609	144,214,991
Total Investments	\$ 1,076,988,328	\$ 90,818,349	\$ 11,126,288	\$ 35,216,634	\$ 1,598,331,762	\$ 228,322,395	\$ 3,040,803,756

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2010

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the government's investment in a single issuer. All of the major discretely presented component units except the Kentucky Housing Corporation (KHC) has policies in place that limit the amount that can be invested in a single issuer to 5% of the total portfolio market value. KHC places no limit on the amount they may invest in any one issuer. More than five percent of the KHC's investments are in Fannie Mae, GNMA, U.S. Treasury and Dreyfus. These investments are 40%, 27%, 14% and 17%, respectively, of the KHC's total investments.

Foreign Currency Risk

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or deposit. Policies for controlling foreign currency risk will vary with each component unit, individual policies can be found in the notes to the financial statements of the respective component unit.

Of the major discretely presented component units only the University of Kentucky has foreign currency risk as of June 30, 2010. The university has \$3,895,748 in a pooled private equity fund denominated in Euros.

COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2010

Note 6

CAPITAL ASSETS

*Capital asset activity for the year ended June 30, 2010
(Expressed in Thousands):*

	Primary Government		
	Beginning Balance Restated	Additions	Decreases
Primary Government:			
Governmental Activities			Ending Balance
<i>Capital assets, not being depreciated:</i>			
Land	\$ 157,335	\$ 10,149	\$ (3,359)
Construction in progress	2,436,087	514,587	(723,178)
Infrastructure	17,372,469	672,825	(26,608)
Easements and Other Intangibles	111,504	3,931	
Total capital assets not being depreciated	20,077,395	1,201,492	(753,145)
<i>Capital assets, being depreciated/amortized:</i>			
Improvements other than buildings	15,265	530	(195)
Buildings	1,132,339	55,911	(8,737)
Machinery and Equipment	570,749	54,113	(43,017)
Easements and Other Intangibles	6,169		
Total capital assets, being depreciated/amortized	1,724,522	110,554	(51,949)
<i>Less accumulated depreciation/amortization:</i>			
Improvements other than buildings	(6,597)	(558)	40
Buildings	(455,673)	(27,742)	5,156
Machinery and Equipment	(368,146)	(46,585)	34,705
Easements and Other Intangibles	(2,493)	(204)	334
Total accumulated depreciation	(832,909)	(75,089)	40,235
Total capital assets, being depreciated/amortized, net	891,613	35,465	(11,714)
Governmental activities capital assets, net	\$ 20,969,008	\$ 1,236,957	\$ (764,859)
Business-type activities			
<i>Capital assets, not being depreciated:</i>			
Land	\$ 22,995	\$ 393	\$ (1,543)
Construction in progress	112,844	18,317	(11,771)
Total capital assets, not being depreciated	135,839	18,710	(13,314)
<i>Capital assets, being depreciated/amortized:</i>			
Improvements other than buildings	113,695	1,315	(2,324)
Buildings	225,562	16,079	(660)
Machinery and Equipment	59,196	1,722	(1,400)
Easements and Other Intangibles	2,322		
Total capital assets, being depreciated/amortized	400,775	19,116	(4,384)
<i>Less accumulated depreciation for:</i>			
Improvements other than buildings	(56,881)	(2,930)	1,800
Buildings	(101,477)	(7,232)	417
Machinery and Equipment	(47,092)	(2,300)	1,244
Easements and Other Intangibles	(875)	(116)	
Total accumulated depreciation	(206,325)	(12,578)	3,461
Total capital assets, being depreciated/amortized, net	194,450	6,538	(923)
Business-type activities capital assets, net	\$ 330,289	\$ 25,248	\$ (14,237)

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2010

Depreciation expense, charged to functions/programs of the primary government as follows:

(Expressed in Thousands)

	Governmental Activities	Business-type Activities
General Government	\$ 7,464	\$
Legislative and Judicial	566	
Commerce	3,181	
Education and Humanities	3,977	
Human Resources	3,527	
Justice	17,912	
Natural Resources and Environmental Protection	2,474	
Public Protection and Regulation	277	
Transportation	18,917	
Capital assets held by government's internal service funds are charged to the various functions based on usage of the assets	16,794	
State Parks		10,279
Lottery Corporation		1,368
Horse Park		759
Insurance Administration		172
Total depreciation expense by activities	\$ 75,089	\$ 12,578

Discretely presented major component units

Capital asset activity for the year ended June 30, 2010

(Expressed in Thousands):

	Component Units			
	Beginning Balance	Additions	Retirements	Ending Balance
<i>Capital assets, not being depreciated:</i>				
Land	\$ 159,771	\$ 4,968	\$ (472)	\$ 164,267
Construction in progress	545,820	318,239	(261,974)	602,085
Totals, capital assets not being depreciated	705,591	323,207	(262,446)	766,352
<i>Capital assets, being depreciated/amortized:</i>				
Improvements other than buildings	155,873	9,749		165,622
Buildings	2,856,804	339,196	(2,967)	3,193,033
Machinery and Equipment	1,257,148	115,811	(39,165)	1,333,794
Total capital assets, being depreciated/amortized	4,269,825	464,756	(42,132)	4,692,449
<i>Less accumulated depreciation for:</i>				
Improvements other than buildings	(68,527)	(4,381)	12	(72,896)
Buildings	(1,110,875)	(79,393)	411	(1,189,857)
Machinery and Equipment	(817,865)	(94,575)	32,831	(879,609)
Total accumulated depreciation	(1,997,267)	(178,349)	33,254	(2,142,362)
Total capital assets, being depreciated/amortized, net	2,272,558	286,407	(8,878)	2,550,087
Component units capital assets, net	\$ 2,978,149	\$ 609,614	\$ (271,324)	\$ 3,316,439

Depreciation expense, charged to functions/programs of discretely presented major component units as follows:

(Expressed in Thousands)

Kentucky Housing Corporation	\$ 520
Kentucky Higher Education Student Loan Corporation	3,582
University of Kentucky	101,832
University of Louisville	47,293
Kentucky Community and Technical College System	25,122
Total depreciation expense by functions/programs	\$ 178,349

COMMONWEALTH OF KENTUCKY
Notes to Financial Statements
June 30, 2010

Note 7

INTERFUND TRANSACTIONS

Interfund Transfers In and Out

The table below shows the interfund operating transfers for fiscal year 2010
(Expressed in Thousands):

Transfers In	Transfers Out			
	General Fund	Transportation Fund	Federal Fund	Agency Revenue Fund
General Fund	\$	\$	\$ 6,727	\$ 61,751
Transportation Fund				
Federal Fund				
Agency Revenue Fund	33,324			
Capital Projects Fund	800	8,077	1,242	23,836
Debt Service	138,810	9,901	43,901	1,402
Non-Major Governmental Funds	288,540	30,739	5,295	300,014
State Parks Fund	35,085		989	
Kentucky Horse Park Fund	1,378		14	
Kentucky Public Employees Health Plan				3
Insurance Administration Fund			159	4
Unemployment Compensation Fund				
Internal Service Funds	1,196		7	34
Fiduciary Funds			1	64
Total	<u>\$ 499,133</u>	<u>\$ 48,717</u>	<u>\$ 58,335</u>	<u>\$ 387,108</u>

Reasons for transfers:

- 1) to move resources from the General Fund, for budgetary purposes, to the fund that will expend them;
- 2) to move resources from funds recording the revenue to the Debt Service Fund, for debt service payments;
- 3) to move resources from the funds recording the revenue to the Capital Projects Fund to finance acquisition of capital assets; and
- 4) to move resources from the Kentucky Lottery Corporation to the General Fund.

Interfund Receivables and Payables

The table below shows the interfund receivables and payables for fiscal year 2010
(Expressed in Thousands):

Interfund Receivables	Interfund Payables			
	General Fund	Transportation Fund	Federal Fund	Agency Revenue Fund
General Fund	\$	\$ 511	\$ 1,160	\$ 11,544
Transportation Fund	3		98	473
Federal Fund	12,846	44		1,119
Agency Revenue Fund	27,629	323	43,042	
Capital Projects Fund		708	212	44
Non-Major Governmental Funds	17,129		68,734	568
State Parks Fund	83	24	11	47
Kentucky Public Employees Health Plan	43,701			4
Insurance Administration Fund	11			4
Unemployment Compensation Fund	1			
Internal Service Funds	1,143	23	65	93
Total	<u>\$ 102,546</u>	<u>\$ 1,633</u>	<u>\$ 113,322</u>	<u>\$ 13,896</u>

Reasons for interfund payables and receivables:

- 1) to record sales by proprietary funds to other funds; 2) to record reimbursements of expenditures made in one fund for another fund;
- 3) to distribute program cost among funds; and 4) to record short-term loans from one fund to another.

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2010

Transfers Out							
Capital Projects Fund	Non-Major Governmental Funds	State Parks Fund	Kentucky Lottery Corporation	Insurance Administration Fund	Internal Service Funds	Fiduciary Funds	Total
\$ 33,283	\$ 28,644	\$	\$ 200,000	\$ 26,500	\$ 8,543	\$ 4,022	\$ 369,470
9							9
23							23
1,114	452,755			3,323	358	784	491,658
	1,910	24		1,217	970		38,076
36	22,598	40			20		216,708
31	202,798	323	11,590				839,330
2,322	370						38,766
9,670							11,062
							3
21,799							21,962
	6						6
5,510				790			6,747
							855
<u>\$ 73,797</u>	<u>\$ 709,081</u>	<u>\$ 387</u>	<u>\$ 211,590</u>	<u>\$ 31,830</u>	<u>\$ 9,891</u>	<u>\$ 4,806</u>	<u>\$ 2,034,675</u>

Interfund Payables						
Capital Projects Fund	Non-Major Governmental Funds	State Parks Fund	Kentucky Horse Park Fund	Insurance Administration Fund	Internal Service Funds	Total
\$	\$ 650	\$ 452	\$	\$	\$ 1,687	\$ 16,004
1						575
	152					14,161
23,801	1,191		14	25	245	96,270
	1,439			300		2,703
83	3,548					90,062
						165
	8,739					52,444
	12					27
						1
19	5	89	19		3	1,459
<u>\$ 23,904</u>	<u>\$ 15,736</u>	<u>\$ 541</u>	<u>\$ 33</u>	<u>\$ 325</u>	<u>\$ 1,935</u>	<u>\$ 273,871</u>

Note 8**PENSION PLANS AND OTHER POST EMPLOYMENT BENEFITS**

Under the provisions of Kentucky Revised Statutes (KRS) 61.645, the Board of Trustees of the Kentucky Retirement Systems administers the Kentucky Employees Retirement System (KERS), County Employees Retirement System (CERS), and State Police Retirement System (SPRS).

The Commonwealth contributes to the KERS, a multiple-employer cost sharing defined benefit pension plan that covers substantially all regular full-time members employed in non-hazardous and hazardous duty positions of any state department, board, or any agency directed by Executive Order to participate in the System. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Per KRS 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend the contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. The System's administrative budget and employer contribution rates are subject to the approval of the Kentucky General Assembly. Employee contribution rates are set by the statute and may be changed only by the Kentucky General Assembly.

The Commonwealth is the predominant employer for KERS and for note disclosure purposes will be considered as a single employer plan.

CERS, a multiple employer cost sharing defined benefit pension plan, provides for retirement, disability, and death benefits to plan members.

SPRS is a single-employer defined benefit plan that covers all full-time State Troopers employed in a hazardous duty position by the Kentucky State Police. The plan provides for retirement, disability, and death benefits to plan members. Retirement benefits may be extended to beneficiaries of the plan members under certain circumstances. Per KRS 61.565(3), normal contribution and past service contribution rates shall be determined by the Board on the basis of an annual valuation last proceeding the July 1 of a new biennium. The Board may amend the contribution rates as of the first day of July of the second year of a biennium, if it is determined on the basis of a subsequent actuarial valuation that amended contribution rates are necessary to satisfy requirements determined

in accordance with actuarial bases adopted by the Board. However, formal commitment to provide the contributions by the employer is made through the biennial budget. The financial statements are prepared using the accrual basis of accounting. Plan member contributions are recognized in the period in which contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the plan.

Investments are reported at fair value. Short-term investments are reported at cost, which approximates fair value. Securities traded on a national exchange are valued at the last reported sales price at current exchange rates. The fair value of real estate is based on appraisals. Investments that do not have an established market are reported at estimated fair value.

Cost-of-living adjustments (COLA) are provided annually equal to the percentage increase in the annual average of the consumer price index for all urban consumers for the most recent calendar year, not to exceed 1.5% provided the recipient has been receiving a benefit for at least twelve months prior to the effective date of the COLA. If the recipient has been receiving a benefit for less than twelve months prior to the effective date of the COLA, the increase shall be reduced on a pro-rata basis for each month the recipient has not been receiving benefits in the twelve months preceding the effective date of the COLA. The General Assembly reserves the right to suspend or reduce cost-of-living adjustments if in its judgment the welfare of the Commonwealth so demands.

Kentucky Retirement Systems Insurance Fund (Fund) was established to provide hospital and medical insurance for members receiving benefits from the Kentucky Employees Retirement System, the County Employees Retirement System, and the State Police Retirement System. The Fund pays a prescribed contribution for whole or partial payment of required premiums to purchase hospital and medical insurance.

The amount of contribution paid by the Funds is based on years of service. For members participating prior to July 1, 2003, years of service and respective percentages of the maximum contribution are as follows:

<u>Years of Service</u>	<u>Percent Paid by Insurance Fund</u>	<u>Percent Paid by Member Through Payroll Deduction</u>
20 or more	100%	0%
15 - 19	75%	25%
10 - 14	50%	50%
4 - 9	25%	75%
Less than 4	0%	100%

As a result of House Bill 290 (2004 General Assembly), medical insurance benefits are calculated differently for members who began

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participating on or after July 1, 2003. Once members reach a minimum vesting period of ten years, non-hazardous employees whose participation began on or after July 1, 2003 earn ten dollars (\$10) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Hazardous employees whose participation began on or after July 1, 2003 earn fifteen dollars (\$15) per month for insurance benefits at retirement for every year of earned service without regard to a maximum dollar amount. Upon the death of a hazardous employee, such employee's spouse receives ten dollars (\$10) per month for insurance benefits for each year of the deceased employee's hazardous service. This dollar amount is subject to adjustment annually based on the retiree cost of living adjustment (COLA), which is updated annually due to changes in the Consumer Price Index for all urban consumers. This benefit is not protected under the inviolable contract provisions of Kentucky Revised Statute 16.652, 61.692, and 78.852. The General Assembly reserves the right to suspend or reduce this benefit if, in its judgment, the welfare of the Commonwealth so demands.

In prior years, the employers' required medical insurance contribution rate was being increased annually by a percentage that would result in advance-funding the medical liability on an actuarially determined basis using the entry age normal cost method within a 20-year period measured from 1987. In November 1992, the Board of Trustees adopted a fixed percentage contribution rate and suspended future increases under the current medical premium funding policy until the next experience study could be performed. In May 1996, the Board of Trustees adopted a policy to increase the insurance contribution rate by the amount needed to achieve the target rate for full entry age normal funding within twenty years.

Kentucky Retirement Systems commenced self-funding of healthcare benefits for its Medicare eligible retirees on January 1, 2006. A self-funded plan is one in which Kentucky Retirement Systems assumes the financial risk for providing healthcare to its retirees. The self-funded plan pays for claims out-of-pocket as they are presented instead of paying a pre-determined premium to an insurance carrier for a fully-funded plan.

The Kentucky Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the above mentioned retirement systems. That report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at 1-800-928-4646.

The Judicial Retirement Plan is a single employer defined benefit plan which provides retirement, disability and death benefits to plan members and their beneficiaries. The annual July 1 cost-of living adjustment (COLA) is 1.50 percent. Additionally, legislation provides that a pension benefit shall be increased, if necessary, so that it equals an amount calculated by using a 1.5125 percent benefit rate and the 60 month average earnings of the position held by the

member at the time of retirement. Contribution rates are established by KRS 21.525.

The percentage of medical insurance premiums paid by the Plan is based on years of service with the Systems, as follows:

Years of Service	Percent Paid by the Fund
4 years - 9 years 11 months	25%
10 years - 14 years 11 months	50%
15 years - 19 years 11 months	75%
20 years or more	100%

The Legislators' Retirement Plan is a single employer defined benefit plan providing retirement, disability, and death benefits to plan members and their beneficiaries. The annual July 1 cost-of living adjustment (COLA) is 1.50 percent. Additionally, legislation provides that a pension benefit shall be increased, if necessary, so that it equals an amount calculated by using a 1.925 percent benefit rate and the 60 month average earnings of the position held by the member at the time of retirement. Contribution rates are established by KRS 21.525.

The percentage of medical insurance premiums paid by the Plan is based on years of service with the Systems, as follows:

Years of Service	Percent Paid by the Fund
4 years - 9 years 11 months	25%
10 years - 10 years 11 months	50%
11 years - 11 years 11 months	55%
12 years - 12 years 11 months	60%
13 years - 13 years 11 months	65%
14 years - 14 years 11 months	70%
15 years - 15 years 11 months	75%
16 years - 16 years 11 months	80%
17 years - 17 years 11 months	85%
18 years - 18 years 11 months	90%
19 years - 19 years 11 months	95%
20 years or more	100%

The financial statements are prepared using the accrual basis of accounting. Plan member contributions to the plan are recognized when due and the employer has made formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with terms of the Plans.

Investments are reported at fair value. Securities traded on a national exchange are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value.

The Judicial Form Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the above mentioned retirement systems. That report may be obtained by writing to the Judicial Form Retirement System, P.O. Box 791, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-5310.

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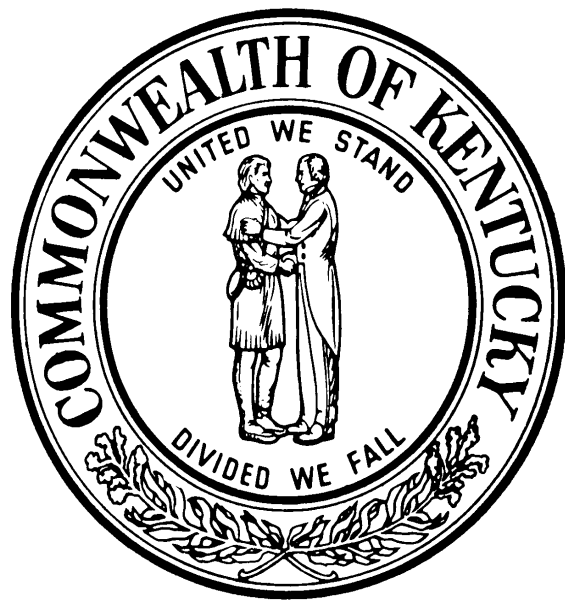
The Kentucky Teachers' Retirement System (KTRS) was established by the 1938 General Assembly and is governed by Chapter 161 Section 220 through Section 990 of the Kentucky Revised Statutes. KTRS is a multiple-employer cost sharing defined benefit plan established to provide pension plan coverage for local school districts and other educational agencies in the state.

The Commonwealth is the predominant contributor to KTRS and for note disclosure purposes it will be considered as a single employer plan.

The financial statements are prepared on the accrual basis of accounting. Member contributions and employer matching are recognized in the fiscal year due. Plan investments are reported at fair value. Short-term securities are carried at cost, which approximates fair value. Fixed income and common and preferred stocks are generally valued based on published market prices and quotations from national security exchanges and security pricing services. Real estate is primarily valued based on appraisals performed by independent appraisers.

COLA are one and one-half percent annually. Additional ad hoc increases and any other benefit amendments must be authorized by the General Assembly.

The Kentucky Teachers' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing the Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601.



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	Kentucky Legislators' Retirement Plan		Kentucky Judicial Retirement Plan		State Police Retirement System	
	Pension	Insurance	Pension	Insurance	Pension	Insurance
Contribution rates:						
State	7.00%	1.00%	14.30%	2.30%	33.08%	
Plan members	5.0%-6.0%		5.0%-6.0%		8.0%-9.0%	
Portion of State Contribution for Health Insurance						
Annual required contribution (ARC) (Thousands)	\$375	\$60	\$4,512	\$838	\$18,765	\$30,302
Contributions made (Thousands)	\$320	\$60	\$4,470	\$830	\$9,489	\$8,917
Actuarial valuation date	June 30, 2009		June 30, 2009		June 30, 2010	
Actuarial cost method	Projected unit credit		Projected unit credit		Entry age normal	
Amortization method	Interest + 1% Unfunded Past Liability		Interest + 1% Unfunded Past Liability		Level percent closed	
Remaining amortization period	25 years		25 years		27 years	
Asset valuation method	Market value		Market value		Five-year smoothed market	
Actuarial assumptions:						
Investment rate of return	7.00%		7.00%		7.75%	4.50%
Inflation Rate					3.50%	
Projected salary increases	1%-4%		1%-4%		5.0%-21.0%	
Increases in Health Insurance Cost	5% - 11%		5% - 11%		5.0%-10.5%	
(Dollar amounts in thousands)						
Actuarial Required						
Contribution (ARC)	\$ 375	\$ 60	\$ 4,512	\$ 838	\$ 18,765	\$ 30,302
Interest on NPO/NOPEBO	(38)	(22)	(62)	(12)	1,865	6,666
Adjustment to ARC	44	26	75	14	(1,206)	(4,309)
Annual pension cost	381	64	4,525	840	19,424	32,659
Contributions made	320	60	4,470	830	9,489	8,917
Increase (Decrease) in NPO/NOPEBO	61	4	55	10	9,935	23,742
NPO/NOPEBO beginning of year	(526)	(309)	(898)	(169)	24,069	86,015
NPO/NOPEBO as of 6/30/10	<u>\$ (465)</u>	<u>\$ (305)</u>	<u>\$ (843)</u>	<u>\$ (159)</u>	<u>\$ 34,004</u>	<u>\$ 109,757</u>
Percentage APC contributed	83.9%	93.8%	98.8%	98.8%	48.9%	27.3%
6/30/2009						
Annual Pension Cost	\$ 382	\$ 64	\$ 4,526	\$ 840	\$ 16,387	\$ 31,041
Percentage APC Contributed	83.8%	93.8%	98.8%	98.8%	50.0%	24.6%
NPO/NOPEBO as of 6/30/09	<u>\$ (526)</u>	<u>\$ (309)</u>	<u>\$ (898)</u>	<u>\$ (169)</u>	<u>\$ 24,069</u>	<u>\$ 86,015</u>
6/30/2008						
Annual Pension Cost	\$ 433	\$ 288	\$ 2,379	\$ 461	\$ 14,076	\$ 44,181
Percentage APC Contributed	98.8%	99.0%	99.8%	99.8%	52.9%	17.0%
NPO/NOPEBO as of 6/30/08	<u>\$ (588)</u>	<u>\$ (313)</u>	<u>\$ (954)</u>	<u>\$ (179)</u>	<u>\$ 15,868</u>	<u>\$ 62,617</u>

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Kentucky Employees Retirement System				Kentucky Teachers' Retirement System	
Non-Hazardous		Hazardous		Pension	Insurance
Pension	Insurance	Pension	Insurance		
11.61%		24.69%		12.305%	0.75%
5.0%-6.0%		8.0%-9.0%		9.105%	0.75%
					28.0%
\$348,495	\$376,556	\$17,815	\$35,045	\$633,938	\$459,047
\$144,051	\$102,528	\$17,658	\$22,241	\$418,558	\$175,347
June 30, 2010				June 30, 2010	
Entry age normal				Projected unit credit	
Level percent closed				Level percent open	
27 years				30 years	
Five-year smoothed market				Five-year smoothed market	Market value of assets
7.75%	4.50%	7.75%		7.50%	7.5%-8.0%
3.50%		3.50%			4.00%
5.0%-17.0%		5.0% - 21.0%		4.00% - 8.20%	
	5.0%-10.5%		5.0%-10.5%		5.0%-10.5%
\$ 348,495	\$ 376,556	\$ 17,815	\$ 35,045	\$ 633,938	\$ 459,047
43,218	72	18	4	30,997	23,097
(27,938)	(47)	(13)	(3)	(83,341)	(18,383)
363,775	376,581	17,820	35,046	581,594	463,761
144,051	102,528	17,658	22,241	418,558	175,347
219,724	274,053	162	12,805	163,036	288,414
557,651	944,621	233,001	69,288	413,293	518,283
\$ 777,375	\$ 1,218,674	\$ 233,163	\$ 82,093	\$ 576,329	\$ 806,697
39.6%	27.2%	99.1%	63.5%	72.0%	37.8%
\$ 304,510	\$ 380,431	\$ 21,925	\$ 36,152	\$ 563,860	\$ 470,911
36.9%	21.7%	72.3%	58.1%	71.1%	39.0%
\$ 557,651	\$ 944,621	\$ 233,001	\$ 69,288	\$ 413,293	\$ 518,283
\$ 270,222	\$ 562,787	\$ 20,228	\$ 51,881	\$ 539,549	\$ 289,294
38.7%	11.3%	75.4%	42.5%	81.3%	57.5%
\$ 365,524	\$ 646,901	\$ 226,919	\$ 54,129	\$ 250,170	\$ 230,919

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Schedule of Funding Progress - Retirement Funds

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Kentucky Employees Retirement System						
<u>Non-Hazardous</u>						
June 30, 2008	\$ 5,318,792,893	\$ 10,129,689,985	\$ 4,810,897,092	52.5	\$ 1,837,873,488	261.8
June 30, 2009	4,794,611,365	10,658,549,532	5,863,938,167	45.0	1,754,412,912	334.2
June 30, 2010	4,210,215,585	11,004,795,089	6,794,579,504	38.3	1,815,146,388	374.3
<u>Hazardous</u>						
June 30, 2008	\$ 502,132,214	\$ 618,010,827	\$ 115,878,613	81.2	\$ 148,710,060	77.9
June 30, 2009	502,503,287	674,411,781	171,908,494	74.5	146,043,576	117.7
June 30, 2010	502,729,009	688,149,451	185,420,442	73.1	143,557,994	129.2
State Police Retirement System						
June 30, 2008	\$ 350,891,451	\$ 587,129,257	\$ 236,237,806	59.8	\$ 53,269,080	443.5
June 30, 2009	329,966,989	602,328,868	272,361,879	54.8	51,660,396	527.2
June 30, 2010	304,577,292	612,444,806	307,867,514	49.7	51,506,712	597.7
Judicial Retirement Plan						
June 30, 2008	\$ 226,865,320	\$ 255,108,465	\$ 28,243,145	88.9	\$ 31,224,444	90.5
June 30, 2009	211,793,059	290,860,147	79,067,088	72.8	29,886,624	264.6
June 30, 2010	193,940,389	294,521,361	100,580,972	65.8	29,886,624	336.5
Legislators' Retirement Plan						
June 30, 2008	\$ 45,567,209	\$ 43,760,180	\$ (1,807,029)	104.1	\$ 4,755,214	(38.0)
June 30, 2009	42,929,075	60,163,091	17,234,016	71.4	4,916,770	350.5
June 30, 2010	40,231,811	62,774,038	22,542,227	64.1	4,916,770	458.5
Kentucky Teachers' Retirement System						
June 30, 2008	\$ 15,321,325,000	\$ 22,460,304,000	\$ 7,138,979,000	68.2	\$ 3,190,332,000	223.8
June 30, 2009	14,885,981,000	23,400,426,000	8,514,445,000	63.6	3,253,077,000	261.7
June 30, 2010	14,851,330,000	24,344,316,000	9,492,986,000	61.0	3,321,614,000	285.8

Schedule of Funding Progress - Insurance Funds

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded (Overfunded) AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
Kentucky Employees Retirement System						
<u>Non-Hazardous</u>						
June 30, 2008	\$ 603,197,761	\$ 5,431,499,285	\$ 4,828,301,524	11.1	\$ 1,837,873,488	262.7
June 30, 2009	534,172,580	4,507,325,571	3,973,152,991	11.9	1,754,412,912	226.5
June 30, 2010	471,341,628	4,466,136,041	3,994,794,413	10.6	1,815,146,388	220.1
<u>Hazardous</u>						
June 30, 2008	\$ 288,161,759	\$ 541,657,214	\$ 253,495,455	53.2	\$ 148,710,060	170.5
June 30, 2009	301,634,592	491,132,170	189,497,578	61.4	146,043,576	129.8
June 30, 2010	314,427,296	493,297,529	178,870,233	63.7	143,557,944	124.6
State Police Retirement System						
June 30, 2008	\$ 123,961,197	\$ 445,107,468	\$ 321,146,271	27.8	\$ 53,269,080	602.9
June 30, 2009	123,526,647	364,031,141	240,504,494	33.9	51,660,396	465.5
June 30, 2010	121,175,083	434,960,495	313,785,412	27.9	51,506,712	609.2
Judicial Retirement Plan						
June 30, 2008	\$ 44,347,577	\$ 47,851,882	\$ 3,504,305	92.7	\$ 31,224,444	11.2
June 30, 2009	43,816,525	39,816,215	(4,000,310)	110.0	29,886,624	(13.4)
June 30, 2010	43,186,642	41,831,779	(1,354,863)	103.2	29,886,624	(4.5)
Legislators' Retirement Plan						
June 30, 2008	\$ 25,117,103	\$ 23,668,943	\$ (1,448,160)	106.1	\$ 4,755,214	(30.5)
June 30, 2009	24,413,467	18,481,365	(5,932,102)	132.1	4,916,770	(120.7)
June 30, 2010	23,908,481	19,434,535	(4,473,946)	123.0	4,916,770	(91.0)
Kentucky Teachers' Retirement System						
June 30, 2008	\$ 263,541,000	\$ 6,518,787,000	\$ 6,255,246,000	4.0	\$ 3,190,332,000	196.1
June 30, 2009	313,806,000	6,545,067,000	6,231,261,000	4.8	3,253,077,000	191.5
June 30, 2010	329,129,000	3,298,897,000	2,969,768,000	10.0	3,321,614,000	89.4

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Membership of the retirement systems, at June 30, 2010, is shown in the following table:

	Kentucky Employees Retirement System		County Employees Retirement System		State Police Retirement System	Judicial Retirement Plan	Legislators' Retirement Plan	Kentucky Teachers' Retirement System	Total
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous					
Retirees and beneficiaries receiving benefits	37,945	2,835	41,038	6,068	1,223	306	159	43,134	132,708
Terminated plan members - vested	37,681	3,155	64,004	2,631	345	24	53	5,637	113,530
Active plan members	47,090	4,291	84,681	9,562	961	248	124	76,387	223,344
Total Members	<u>122,716</u>	<u>10,281</u>	<u>189,723</u>	<u>18,261</u>	<u>2,529</u>	<u>578</u>	<u>336</u>	<u>125,158</u>	<u>469,582</u>
Number of participating employers	372		1,396		1	1	1	197	1,968

Three year trend for contributions
(Expressed in thousands):

	Pension		Insurance		Total	
	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed	Annual Required Contribution	Percentage Contributed
<u>Kentucky Employees Retirement System</u>						
<u>Non-Hazardous</u>						
2008	\$ 264,743	39.5%	\$ 558,746	11.3%	\$ 823,489	20.4%
2009	294,495	38.2%	362,707	22.8%	657,202	29.7%
2010	348,495	41.3%	376,556	27.2%	725,051	34.0%
<u>Hazardous</u>						
2008	\$ 14,147	107.8%	\$ 51,215	43.1%	\$ 65,362	57.1%
2009	15,708	100.9%	34,670	60.6%	50,378	73.1%
2010	17,815	99.1%	35,045	63.5%	52,860	75.5%
<u>State Police Retirement System</u>						
2008	\$ 13,823	53.8%	\$ 43,470	17.3%	\$ 57,293	26.0%
2009	15,952	51.3%	29,325	26.1%	45,277	34.9%
2010	18,765	50.6%	30,302	29.4%	49,067	37.5%
<u>Judicial Retirement Plan</u>						
2008	\$ 2,375	100.0%	\$ 460	100.0%	\$ 2,835	100.0%
2009	4,512	99.1%	838	99.1%	5,350	99.1%
2010	4,512	99.1%	838	99.0%	5,350	99.1%
<u>Legislator's Retirement Plan</u>						
2008	\$ 428	100.0%	\$ 285	100.0%	\$ 713	100.0%
2009	375	85.3%	60	100.0%	435	88.0%
2010	375	85.3%	60	100.0%	435	87.4%
<u>Kentucky Teachers' Retirement System</u>						
2008	\$ 563,789	78.0%	\$ 397,196	41.9%	\$ 960,985	76.0%
2009	600,283	66.8%	468,812	39.2%	1,069,095	54.7%
2010	633,938	66.0%	459,047	38.2%	1,092,985	54.3%

Note 9**EMPLOYEE BENEFIT PLAN****Kentucky Public Employees' Deferred Compensation Plan**

Employees of the Commonwealth, its cities, counties, and local school districts are eligible to participate in two deferred compensation plans as authorized by the United States Internal Revenue Code. These plans, labeled 457 and 401(k), after sections of the Code, are administered by the Personnel Cabinet and an independent Plan administrator. The Commonwealth, through a board of trustees as defined in KRS 18A.245, selects the administrator to oversee the daily operations and technical compliance of the Plans with applicable sections of the Internal Revenue Code. The Commonwealth's responsibilities consist of withholding payroll deductions for its employees, collecting employee withholdings of the cities, counties, and local school districts, and remitting those withholdings to the plan administrators holding fixed and variable annuity contracts (carriers). Both Plans permit employees to defer collecting a portion of their salary until future years. This deferment is not available to employees until termination, retirement, death, or unforeseeable emergency. Assets of the 457 Plan and the 401(k) Plan are reported in a Pension Trust Fund within the fiduciary fund type, in compliance with Internal Revenue Code and GASB 32 requirements.

Of the \$633,213,708 in the 457 Plan at June 30, 2010, \$318,545,208 was applicable to the Commonwealth, while the remaining \$314,668,500 represents assets of the other jurisdictions participating in the Plan. The 401(k) Plan had total plan assets of \$977,779,558 at June 30, 2010, of which \$379,227,950 was applicable to the state while the remaining \$598,551,608 represents other participating jurisdictions.

Note 10**LEASE OBLIGATIONS**

The Commonwealth has entered into various leases for buildings and equipment. Generally, leases contain termination clauses providing for cancellation after a 30-, 60-, or 90-days written notice. In addition, certain leases contain appropriation clauses indicating that continuation of the lease is subject to funding by the General Assembly. It is expected that in the normal course of business most of these leases will be replaced by similar leases.

A portion of the capital lease liability for the University and College Fund is applicable to leases with the Commonwealth.

Changes in leases payable for the year ended June 30, 2010, are summarized in Note 15, Changes in Long-Term Obligations.

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June 30, 2010

At June 30, 2010, capitalized leases included Buildings and Equipment as follows (Expressed in Thousands):

Buildings and Equipment acquired through capital leases are recorded at the lessor of fair market value or present value of future minimum lease payments.

Buildings	
Equipment	
Other	
Total	
Less: Accumulated depreciation	
Total Net of Depreciation	

Primary Government		
Governmental Activities	Business-Type Activities	Component Units-Major
\$ 26,519	\$ 353	\$ 475,125
27,755		56,763
		60,336
54,274	353	592,224
(25,297)	(168)	(119,031)
<u>\$ 28,977</u>	<u>\$ 185</u>	<u>\$ 473,193</u>

Future minimum rental commitments for capitalizable leases as of June 30, 2010, are as follows (Expressed in Thousands):

	Primary Government		Component Units-Major Universities, Colleges, and Related Entities	Total
	Governmental Activities	Business-Type Activities		
2011	\$ 10,313	\$ 71	\$ 70,102	\$ 80,486
2012	4,960	48	66,982	71,990
2013	3,409	16	64,023	67,448
2014	2,648		51,674	54,322
2015	5,057		45,604	50,661
2016-2020	10,766		189,578	200,344
2021-2025	3,054		153,230	156,284
2026-2030	206		74,325	74,531
Total minimum lease payments	40,413	135	715,518	756,066
Less: Amount representing interest (1.50-63.60%)	(8,072)	(8)	(192,500)	(200,580)
Present value of future minimum lease payments	<u>\$ 32,341</u>	<u>\$ 127</u>	<u>\$ 523,018</u>	<u>\$ 555,486</u>

Note 11

RISK MANAGEMENT

The Commonwealth is exposed to various risks of loss related to torts: theft, damage, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Commonwealth utilizes the Risk Management Fund to account for these activities.

Fire and Tornado Insurance:

The Fire and Tornado Insurance Program is established to account for and finance its uninsured risk of loss arising from damages to State buildings and personal property. Under this program, coverage is provided for up to a maximum of \$500,000 per occurrence of loss for each insured subject of risk. The Fire and Tornado Insurance Program purchases reinsurance for claims in excess of coverage provided by the Program. Settled claims have not exceeded commercial coverage in any of the past three fiscal years.

The claims liability of \$2,702,573 reported in the Program at June 30, 2010, is based on the requirements of GASB 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability

has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Changes in the Program's claims liability amount in Fiscal Years 2010 and 2009 were:

	Fiscal Year 2010	Fiscal Year 2009
Beginning of fiscal year liability	\$ 1,326,874	\$ 987,830
Incurred claims	39,955,871	4,702,032
Changes in estimates		
Claims payments	(38,580,172)	(4,362,988)
Balance at Fiscal Year End	<u>\$ 2,702,573</u>	<u>\$ 1,326,874</u>

Self-Insured Workers' Compensation:

The Workers' Compensation Program is self-insurance for the benefit of the Commonwealth's employees, and others as described in KRS 18A.370. Losses payable by the Program include medical claims and loss of wages as a result of an employment related injury. Premiums are established based upon estimated claims and administrative cost for the coming fiscal year. The Program carries reinsurance coverage for large individual or incident claims between \$5,000,000 and \$20,000,000.

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2010

The actuarially determined aggregate claims liability of \$133,533,497 reported in the Program at June 30, 2010, includes both reported and unreported insured events, including estimates of future payments of losses and related claims' adjustments. Changes in the Program's claims liability amount in Fiscal Years 2010 and 2009 were:

	Fiscal Year 2010	Fiscal Year 2009
Beginning of fiscal year liability	\$ 130,785,487	\$ 118,833,138
Claims and claims adjustments incurred:		
Current year	19,083,735	21,005,861
Increase (Decrease) in Prior year	1,986,969	10,218,377
Total Claims and Claims Adjustments Incurred:	21,070,704	31,224,238
Claims and claims adjustment payments:		
Current year	(4,613,203)	(4,906,900)
Increase (Decrease) in Prior year	(13,709,491)	(14,364,989)
Total Claims and Claims Adjustment Payments	(18,322,694)	(19,271,889)
Balance at Fiscal Year End	<u>\$ 133,533,497</u>	<u>\$ 130,785,487</u>

Transportation Cabinet Workers' Compensation:

The Transportation Cabinet's Self-Insured Workers' Compensation Trust Program (the "Program") was organized on July 1, 1963, as a self-insurance fund administered by the Transportation Cabinet of the Commonwealth of Kentucky (the "Cabinet"). The purpose of the Program is to provide workers' compensation insurance to the employees of the Cabinet. The losses incurred by the Program are serviced by a designated third-party administrator who processes and reports all claims to the program. Changes in the Program's claims liability amount in Fiscal Years 2010 and 2009 were:

	Fiscal Year 2010	Fiscal Year 2009
Beginning of fiscal year liability	\$ 24,053,754	\$ 24,742,142
Claims and claims adjustments incurred	3,388,000	3,150,000
Changes in estimates	(2,256,000)	(1,297,748)
Claims and claims adjustment payments	(2,903,567)	(2,540,640)
Balance at Fiscal Year End	<u>\$ 22,282,187</u>	<u>\$ 24,053,754</u>

Note 12

RISK POOLS

The Commonwealth's risk pools are the Insurance Administration Fund (enterprise fund) and the Grain Insurance Corporation and Kentucky Access (component units). The Insurance Administration Fund includes the operations of five risk pools as follows: Workers' Compensation Insurance, Coal Workers Pneumoconiosis, Petroleum Storage Tank Assurance, Bond Pool, and Mine Subsidence Insurance. The Insurance Administration Corporation is reported as part of the primary government. Kentucky Access and the Grain Insurance Corporation are risk pools reported as discrete component units.

Risk Pools - Enterprise Funds

Workers' Compensation Insurance:

The Kentucky Workers' Compensation Insurance Program, a risk sharing pool, covers preexisting conditions to protect employers from having to pay for injuries not sustained while under their employment, or more than once for disabilities resulting from the same accident. This Program encourages reemployment of injured workers at adequate wages by relieving the employer of the requirement of paying disability compensation in addition to full wages. The Program also covers claims against uninsured employers.

The Program establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of \$787,872,000, as reported in the financial statements, is the present value of the aggregate actuarially determined claims liability of \$1,446,451,000, discounted at 6.0 percent, and net of the estimated realizable value of reimbursements. The claims adjusted liability of \$12,941,000, as reported in the financial statements is the present value of the aggregate actuarially determined liability of \$20,665,000, discounted at 6.0 percent.

The actuarially determined liabilities described above arise from projections included in a biennial actuarial report that was performed as of June 30, 2010. Changes in the Program's aggregate liabilities for claims and claims adjustment for the past two years were:

	Fiscal Year 2010	Fiscal Year 2009
Beginning of fiscal year liability	\$ 1,533,571,000	\$ 1,815,475,000
Claims and claims adjustments incurred	7,159,000	6,508,500
Changes in estimates	(551,000)	(215,768,500)
Claims and claims adjustment payments	(73,063,000)	(72,644,000)
Balance at Fiscal Year End	<u>\$ 1,467,116,000</u>	<u>\$ 1,533,571,000</u>

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2010

Coal Workers' Pneumoconiosis Fund:

The Coal Workers' Pneumoconiosis Fund (CWPF) was created within the Labor Cabinet through the enactment of House Bill No. 1 by the December 1996 Special Session of the General Assembly. The CWPF is liable for one-half of the income benefits and retraining incentive benefits for occupational pneumoconiosis resulting from exposure to coal dust created in the severance or processing of coal. The employer is liable for the remaining half.

In accordance with House Bill No. 1 from the December 1996 Special Session, the Kentucky Workers' Compensation Funding Commission shall impose a pneumoconiosis assessment to pre-fund the liabilities of the CWPF and to finance its administration. The assessment is 3.0 percent of workers' compensation premiums received on or after January 1, 1997, from employers engaged in the severance or processing of coal and an additional assessment of \$0.025 per ton imposed upon coal severed on or after January 1, 1997. All pneumoconiosis assessments collected by the Funding Commission are to be credited to a separate account within the Benefit Reserve Fund and to be transferred as necessary to pay administrative expenses and current claims of the CWPF.

The Coal Workers' Pneumoconiosis Fund establishes claims liability based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of \$9,160,000, as reported in the financial statements, is the present value of the aggregate actuarially determined liability of \$16,064,000, discounted at 6.0 percent. The claims adjustment liability of \$834,000, as reported in the financial statements, is the present value of the aggregate actuarially determined liability of \$1,462,000, discounted at 6.0 percent. Changes in the aggregate liability for claims and claims adjustments for the past two years were as follows:

	Fiscal Year 2010	Fiscal Year 2009
Beginning of fiscal year liability	\$ 15,550,000	\$ 16,144,000
Claims and claims adjustments incurred	3,241,000	3,039,000
Changes in estimates	60,000	(2,530,000)
Claims and claims adjustment payments	(1,325,000)	(1,103,000)
Balance at Fiscal Year End	\$ 17,526,000	\$ 15,550,000

As stated above, the Coal Workers' Pneumoconiosis Fund was created by the December 1996 Special Session of the General Assembly. Therefore, there are no provisions for claims prior to 1997.

Petroleum Storage Tank Environmental Assurance Program:

The Office of the Petroleum Storage Tank Environmental Assurance Program, a risk sharing pool, was created in the 1990 regular session of the Kentucky General Assembly. The purpose of the Program is to assist petroleum storage tank owners or operators in complying with federal financial responsibility requirements relating to petroleum storage tanks and in cleaning up contamination caused by leaking tanks. A fee paid (at a rate of one and four-tenths cents per gallon) by dealers on each gallon of gasoline funds the Program and special fuels received in the Commonwealth funds the program.

The Program insures petroleum storage tank owners or operators for cost incurred for cleanup and other corrective action required in cleaning up contamination caused by leaking petroleum storage tanks. The Program also provides coverage for third party claims against the owners or operators for damages sustained as a result of leaking storage tanks. Claims paid by the Program are subject to deductibles that are applied separately, by occurrence, for cleanup claims and third party damage claims. The deductible is set at \$1,000 per occurrence for owners or operators of five or fewer tanks, and at \$5,000 for owners or operators of six to ten tanks, and at \$25,000 for owners or operators of more than ten tanks.

The Program establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of \$240,719,503 that was reported in the financial statements is the aggregate actuarially determined claims liability and is not discounted. Changes in the Program's aggregate liabilities for claims and claims adjustment for the past two years were:

	Fiscal Year 2010	Fiscal Year 2009
Beginning of fiscal year liability	\$ 240,382,101	\$ 285,552,792
Claims and claims adjustments incurred	28,542,988	(28,983,624)
Changes in estimates		
Claims and claims adjustment payments	(28,205,586)	(16,187,067)
Balance at Fiscal Year End	\$ 240,719,503	\$ 240,382,101

Bond Pool:

The Bond Pool was established in 1986 to provide an alternative bonding program for small to medium sized coal companies in Kentucky. Membership in the Pool is voluntary and prospective members must apply to become members. Applicants must meet standards set by the Bond Pool Commission to be accepted as members of the Bond Pool. These criteria, used to evaluate potential Bond Pool members, consider factors such as mining experience, reclamation history, and financial condition of the applicant.

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2010

The Commission, based on the standards considered in the application process, rates accepted members. The members are rated and assessed an initial membership fee based on this rating. This fee ranges from \$1,000 to \$2,500. Additionally members pay tonnage fees of \$.05 per ton of surface mined coal and \$.01 per ton for underground mined coal. Provisions are also in effect where the tonnage fee is suspended for members who have participated in the Program for 36 months, or when the Program balance exceeds \$7 million.

The coal companies participating in the Program are required to post a permit specific bond based on the number of acres permitted and their rating in the Program. The Bond Pool in turn provides coverage for reclamation costs that exceed the permit specific bond but limits claims to the total amount of bond required by the permit. The Bond Pool does not pay claims for costs incurred in excess of the required bond amount.

The Program establishes claims liabilities based on estimates of the ultimate cost of claims (including future claim adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The claims liability of \$21,452,273, as reported in the financial statements, is the aggregate actuarially determined claims liability. There were no changes in claims adjustment liability during fiscal year 2010. Changes in the Program's aggregate liabilities for claims and claims adjustments for the past two years were:

	Fiscal Year 2010	Fiscal Year 2009
Beginning of fiscal year liability	\$ 21,452,273	\$ 21,452,273
Claims and claims adjustments incurred		
Changes in estimates		
Claims and claims adjustment payments		
Balance at Fiscal Year End	\$ 21,452,273	\$ 21,452,273

Mine Subsidence Insurance:

The Mine Subsidence Insurance Program is administered by the Department of Insurance. The provisions of the Program require that all insurance policies issued or renewed that insure a structure located in any county in the Commonwealth, except those specifically exempted by KRS 304.44-60, shall include a separately stated premium for mine subsidence damage coverage. This premium is assessed at the amount determined by the Program, and the insurer is required to code this coverage to the Program. The insurer may refuse to provide coverage where preexisting damage is determined to exist. The Program provides coverage subject to a deductible of 2 percent of the policy's total insured value or not less than \$250 and not more than \$500. The Mine Subsidence Program also limits its coverage to \$50,000 per structure.

GASB 10 requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The Mine Subsidence Program had no liabilities reported. Changes in the Program's claims liability amount in Fiscal Years 2010 and 2009 were:

	Fiscal Year 2010	Fiscal Year 2009
Beginning of fiscal year liability	\$ 0	\$ 0
Claims and claims adjustments incurred		
Changes in estimates		
Claims and claims adjustment payments		
Balance at Fiscal Year End	\$ 0	\$ 0

Kentucky Employees Health Plan:

Kentucky Employees Health Plan was established pursuant to KRS 18A.225, 18A.226, and 18A.227 to administer and facilitate an employee health insurance program as part of a flexible benefits plan. The Department for Employee Insurance (the Department) is responsible for overseeing the Kentucky Employees Health Plan (KEHP).

The health benefits for governmental participants are funded by monthly premiums paid by individuals and state and local governmental units. A participant may extend coverage to dependents for an additional monthly premium based on the coverage requested. Premiums are collected by the Department and held in a trust fund until needed for the payment of benefits.

The Plan develops premium equivalent rates each year by utilizing historical trend information, current claims experience and national trends. An outside actuarial consultant advises the Plan Administrator regarding premium rates. If premium rates are changed, they become effective the beginning of a calendar year.

Plan participants are not subject to supplemental assessment in the event of a premium deficiency. At the time of premium payment, the risk of loss due to incurred benefit costs is transferred from the participant to the Plan. If assets of the Plan were to be exhausted, participants would not be responsible for the Plan's liabilities.

All state agencies and local boards of education in the Commonwealth are required to offer to their active employees the coverage selections offered by the Plan. Local government entities may elect to participate in the Plan.

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Notes to Financial Statements

June 30, 2010

The Plan establishes liabilities for incurred but unpaid claims based on its estimate of the ultimate cost of settling claims that have been reported but not yet settled, and of claims that have been incurred but not yet reported. The claims liability \$78,000,000 that was reported in the financial statements is the aggregate actuarially determined claims liability. Changes in the aggregate liabilities for claims and claims adjustment expenses for the past two years are as follows:

	Fiscal Year 2010	Fiscal Year 2009
Beginning of fiscal year liability	\$ 92,944,000	\$ 79,838,645
Claims and claims adjustments incurred	1,504,737,813	1,399,015,475
Changes in estimates	(3,777,204)	19,793,826
Claims and claims adjustment payments	(1,515,904,609)	(1,405,703,946)
Balance at Fiscal Year End	\$ 78,000,000	\$ 92,944,000

Risk Pools - Component Units

Kentucky Access:

Kentucky Access was created to ensure that health coverage is made available to each applying and qualifying Kentucky individual. As an implemented state sponsored "high risk" pool, Kentucky Access was established January 2, 2001 by KRS 304.17B-001 to 304.17B-031. Its purpose is that Kentucky may continue flexible regulation of health coverage.

In operating under the Division of Kentucky Access in the Department of Insurance, KRS 12.050 and KRS 304.2-060 guides the appointments of an appropriate division director as appointed by the commissioner of insurance. Also, the Guaranteed Acceptance Program, as established by KRS 304.17A-400 to 304.17A-480, helps participating insurance companies to recover losses from individuals who met the "high risk" pool category by transferring the funds to Kentucky Access.

Under this program, a referral fee is paid to Kentucky Access. A provider network is then established, or a provider network is created by contracting with an insurer for a statewide provider network. Under KRS 304.17B-011 the established provider network is available and limited only to Kentucky Access enrollees.

A third-party administrator chosen through the state bidding process administers Kentucky Access. The administrator develops and establishes policies and procedures for enrolled participants and potential enrollees. However, premium rates charged do not fully cover health care costs; thus, claims exceeding premium rates shall be covered by the Kentucky Access Fund.

Changes in the Program's claims liability amount in Fiscal Years 2010 and 2009 were:

	Fiscal Year 2010	Fiscal Year 2009
Beginning of fiscal year liability \$	8,890,000	\$ 8,890,000
Claims and claims adjustments incurred	61,504,793	
Changes in estimates		
Claims and claims adjustment payments	(61,504,793)	
Balance at Fiscal Year End	\$ 8,890,000	\$ 8,890,000

Grain Insurance:

The Grain Insurance Program was established to promote economic stability in agriculture by providing coverage to grain producers for losses incurred in the event of a financial failure of a grain dealer or grain warehousemen. The Program is funded by a half-cent per bushel assessment on all marketed grain produced in Kentucky. The Program also has provisions that the assessment can be suspended when the balance of the Program reaches \$3 million and if suspended will be reapplied when the balance of the Program drops to \$2 million.

No claims liability was reported in the Program at June 30, 2010, based on the requirements of GASB 10. This statement prescribes the reporting of a claim liability if information prior to the issuance of the financial statements indicates that a probable liability has been incurred at the date of the financial statements, and the amount of the loss can be reasonably estimated. Claims liability in Fiscal Year 2009 was also zero.

Note 13

DEFEASANCE OF LONG-TERM DEBT

The School Facilities Construction Commission issues revenue bonds on behalf of local school districts to finance construction of new facilities or the major renovation of existing facilities. The Commission participates in the payment of debt service for qualifying districts. By statute, the Commission's portion of the savings from refunding issues goes to the school district. Therefore, the Commission's participation remains unchanged and the Commission does not experience an economic gain or loss on these transactions. Proceeds from the issues are placed in escrow accounts to pay the future debt service of the issue(s) being refunded. During the fiscal year ended June 30, 2010 the Commission issued the following refunding revenue bonds:

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Revenue refunding bonds dated June 1, 2009, were issued for the Bellevue Independent School District Finance Corporation to refund a 1998 issue. The Commission's portion of the refunding issue was \$133,958 maturing May 1, 2010 through May 1, 2018 and carrying interest rates from 1.40% to 3.40%.

Revenue refunding bonds dated November 1, 2009, were issued for the Erlanger-Elsmere Independent School District Finance Corporation to refund a 1995 issue and a 1999 issue. The Commission's portion of the refunding issue was \$1,347,880 maturing February 1, 2010 through February 1, 2019 and carrying interest rates from 1.00% to 3.40%.

Revenue refunding bonds dated July 30, 2009, were issued for the Fayette County School District Finance Corporation to refund a 1998 issue. The Commission's portion of the refunding issue was \$533,339 maturing February 1, 2010 through August 1, 2018 and carrying interest rates from 1.00% to 3.25%.

Revenue refunding bonds dated August 4, 2009, were issued for the Jefferson County School District Finance Corporation to refund a 1998 issue. The Commission's portion of the refunding issue was \$9,549,211 maturing February 1, 2010 through February 1, 2019 and carrying interest rates from 2.00% to 4.00%.

Revenue refunding bonds dated July 1, 2009, were issued for the Jessamine County School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$1,278,097 maturing February 1, 2010 through August 1, 2020 and carrying interest rates of 2.00% to 3.70%.

Revenue refunding bonds dated October 13, 2009, were issued for the Logan County School District Finance Corporation to refund a 2000 issue. The Commission's portion of the refunding issue was \$595,458 maturing June 1, 2010 through December 1, 2020 and carrying interest rates from 2.00% to 3.25%.

Revenue refunding bonds dated April 27, 2010, were issued for the Ohio County School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$879,086 maturing January 1, 2011 through January 1, 2019 and carrying interest rates from 1.00% to 3.10%.

Revenue refunding bonds dated February 1, 2010, were issued for the Perry County School District Finance Corporation to refund a 1998 issue. The Commission's portion of the refunding issue was \$1,784,162 maturing June 1, 2010 through December 1, 2018 and carrying interest rates from 1.00% to 3.00%.

Revenue refunding bonds dated August 1, 2009, were issued for the Pulaski County School District Finance Corporation to refund a 1998 issue. The Commission's portion of the refunding issue was \$1,137,295 maturing January 1, 2010 through July 1, 2018 and carrying interest rates from 2.00% to 3.00%.

Revenue refunding bonds dated April 1, 2010, were issued for the Scott County School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$1,272,919 maturing February 1, 2011 through February 1, 2019 and carrying interest rates of 2.00% to 3.375%.

Revenue refunding bonds dated December 1, 2009, were issued for the Spencer County School District Finance Corporation to refund a 1999 issue. The Commission's portion of the refunding issue was \$1,355,713 maturing July 1, 2010 through January 1, 2021 and carrying interest rates from 2.00% to 3.375%.

Revenue refunding bonds dated December 1, 2009, were issued under the Kentucky Interlocal School Transportation Association (KISTA) Small Issued Loan Program on behalf of forty-four (44) school districts. The purpose of these bonds was to refinance certain existing loans issued under the KISTA Small Issuer Loan Program (see accompanying table in this note). The Commission's portion of the refunding issue was \$8,412,381 maturing June 1, 2010 through December 1, 2019 and carrying interest rates from 1.00% to 3.30%.

The State Property and Buildings Commission issued the following Revenue and Revenue Refunding Bonds.

The State Property and Buildings Commission issued Revenue and Revenue Refunding Bonds; Project No. 95 dated July 9, 2009, in the amount of \$392,465,000. The issue consisted of: \$138,310,000 Series A (Revenue Refunding) serial bonds maturing February 1, 2010 through August 1, 2020 and carry interest rates of 2.00% to 5.00%; \$44,925,000 Series B (Federally Taxable – Revenue and Revenue Refunding) serial bonds maturing August 1, 2010 through August 1, 2013 and carry interest rates of 2.00% to 4.004%; and \$209,230,000 Series C (Federally Taxable-Build America Bonds). Term Bonds consisting of \$71,995,000 6.164% Term Bond due August 1, 2023 and \$137,235,000 6.573% Term Bond due August 1, 2029. \$157,882,517.80 (\$153,450,000 principle and \$4,432,517.80 interest) of the bond proceeds were deposited in the Bond Repayment Fund, for partial refunding of a note issued by the Kentucky Asset/Liability Commission, for complete or partial refunding of bonds issued by the Kentucky Infrastructure Authority and as complete or partial refunding of bonds issued by the State Property and Buildings Commission. These funds was used for partially refunding of 2003 Series A notes issued by the Kentucky Asset/Liability Commission maturing on August 15, 2009, for bonds issued by the Kentucky Infrastructure Authority these funds was used to completely refund bond issue 1998E maturing on June 1 of 2010, 2011, 2012, 2013, 2014, 2017 and partially refund bond issues 1995D, 2000F, 2000A, 2001B, 2001G, 2002H, 2004C, 2004I maturing on June 1. The funds deposited in the Note Repayment Fund completely or partially refunded bonds previously issued by the State Property and Building Commission. Completely refunded were project 60 bonds maturing on October 1, 2010 and October 1, 2011 and project 62 bond maturing on September 1, 2009, September 1, 2010, September 1, 2011, September 1, 2012,

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June 30, 2010

September 1, 2013 and September 1, 2014, partially refunded were project 63 bonds maturing on November 1, 2009, project 65 bonds maturing on February 1, 2010, project 69 bonds maturing on August 1, 2009, project 74 bonds maturing on August 1, 2009 and February 1, 2010, project 76 bonds maturing on August 1, 2009, project 77 bonds maturing on August 1, 2009, project 78 bonds maturing on October 1, 2009, project 82 bonds maturing on October 1, 2009, project 83 bonds maturing on October 1, 2009, project 87 bonds maturing on March 1, 2010, project 88 bonds maturing on November 1, 2009, project 89 bonds maturing on November 1, 2009, project 90 bonds maturing on November 1, 2009. The refunding will result in decrease cash flows in future periods of 26,965,404.80 and a present value loss of 792,380.74 at 3.5540%.

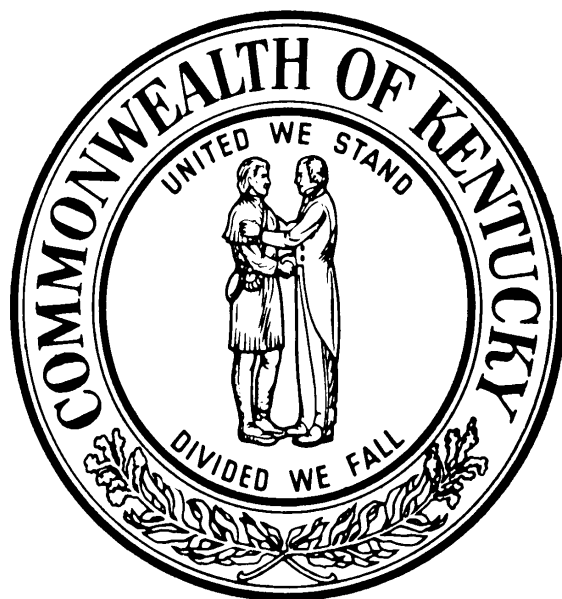
Project 73 (Third Series) Road Fund Revenue Refunding Bonds dated January 6, 2010, in the amount of \$13,680,000. The bonds mature May 1, 2010 through November 1, 2014 and carry interest rates of 1.00% to 2.25%. \$13,680,000 (\$13,505,000 principle and

\$175,000 interest) was deposited in the Bond Repayment Fund, and used for the partial refunding of project 73 (First Series) Road Fund Revenue bonds maturing November 1, 2012, 2013, 2014 and 2015. The net savings (reduction in cash flow) for the Refunding Bonds will be \$499,408.31 and the present value of the savings are \$473,249.78 at a rate of 3.459%.

The Turnpike Authority of Kentucky issued Economic Development Road Revenue and Revenue Refunding Bonds dated June 25, 2010 in the Amount of \$153,260,000. The bonds mature July 1, 2013 through July 1, 2020 and carried interest rates of 2.50% to 5.00%. \$81,434,779.38 was deposited to Bond Fund for Prior Bonds and used for partially refunding of Series 2000 bonds, Series 2001A bonds, Series 2004A bonds, Series 2004B bonds, Series 2005A bonds, Series 2005B bonds and Series 2006A bonds. All the bonds refunded had a maturing date of July 1, 2010.

Kentucky Interlocal School Transportation Association 2009 Issue

School District	SFCC		Local District	
	Face Amount		Amount	Issues Refunded
Augusta Independent	\$ 277,782	\$		Refunds KISTA 5/99 Issue
Ballard County	147,545		34,739	Refunds KISTA 5/99 Bonds
Calloway County	872,972		419,988	Refunds KISTA 9/00 Issue
Campbell County	237,430			Refunded KISTA 10/99 Issue
Cloverport Independent	207,774		40,472	Refunds KISTA 4/99 Issue
Dawson Springs Independent	83,563			Refunds KISTA 9/99 Issue
Erlanger Elsmere Independent	72,358		138,126	Refunds KISTA 6/99 Issue
Fleming County	205,442			Refunds KISTA 1/98 Issue
Fulton County	117,676		16,239	Refunded KISTA 8/97 Issue
Fulton County	172,246			Refunded KISTA 7/00 Bonds
Garrard County	194,134			Refunds KISTA 8/98 Issue
Hancock County	208,696		444,763	Refunds KISTA 6/97 & 6/99 Issues
Harlan County	492,220			Refunds KISTA 10/99 Issue
Harlan Independent	35,456			Refunds KISTA Issue 8/98
Hazard Independent	184,909			Refunds KISTA Issue 5/99
Lawrence County	306,631			Refunds KISTA Issue 12/97
Leslie County	244,755			Refunds KISTA Issue 5/00
Lewis County	711,240			Refunds KISTA 12/99 issue
Menifee County	231,660			Refunds KISTA 8/98 issue
Metcalf County	182,416			Refunds KISTA Issue 7/99 & 9/99 Issue
Muhlenberg County	362,851			Refunds KISTA 11/97 Issue
Nelson County	37,304			Refunds KISTA 9/00 issue
Paris Independent	496,511			Refunds KISTA 7/99 & 9/99 & 2/00 issues
Powell County	75,416			Refunds KISTA 8/00 Issue
Webster County	442,053			Refunds Providence KISTA 5/98, 9/98, 4/99
Raceland Independent	242,886			Refunds KISTA 10/99 Issue
Robertson County	133,486			Refunds KISTA 4/00 Issue
Russell County	848,067			Refunds KISTA Srs 8/98 & 5/99
Williamsburg Independent	126,696			Refunds KISTA 9/99 Issue
Williamstown Independent	460,206			Refunds KISTA Srs 7/97 & 12/99
Nine Other Districts that were 100% Local Debt			3,308,292	
Totals	\$ 8,412,381	\$	4,402,619	



Note 14

RELATED ORGANIZATIONS

The Commonwealth has several related organizations. The financial activities of these organizations are not included in the Commonwealth's financial statements. They are the East Kentucky Corporation, Eastern Kentucky Exposition Center Corporation, West Kentucky Corporation, West Kentucky Economic Development Fund, Northern Kentucky Convention Center Corporation, Kentucky Employer's Mutual Insurance Authority, Kentucky Wood Products Competitiveness Corporation, Commonwealth Seed Capital, LLC, World Games 2010 Foundation, Inc. and the Interstate Air Pollution Control Commission. The Commonwealth holds no economic interest in, nor has any financial responsibility for these organizations.

Note 15

LONG-TERM OBLIGATIONS

Long-Term Obligations

General Obligation Bonds are issued through the State Property and Buildings Commission, subject to general referendum approval required by the Kentucky Constitution. General obligation bonds pledge the full faith, credit, and taxing power of the Commonwealth and denote application of specific or general tax revenues to provide payment of principal and interest requirements on the debt. No new issues of this type have been issued since 1965, and none are outstanding or authorized but unissued at June 30, 2010.

Revenue Bonds - General authorization for the use of revenue bonds is contained in Chapter 58 of the Kentucky Revised Statutes. Specific authority is contained in the legislation and related KRS chapters creating and empowering the various debt issuing entities. Reference to such legislation and laws is made throughout the following entity descriptions. Effective July 15, 1980, KRS 56.870 requires prior approval of debt financing projects by the Kentucky General Assembly sitting in regular or special sessions. Succeeding statutes establish the methods for this approval and the exemptions from it. The majority of new debt issues are approved through the appropriation act. Per KRS 56.873, effective July 15, 1980, revenue bonds having passed the above mechanisms, and not requiring Commonwealth appropriations, must receive an "A" rating by Moody's Investors Service or the equivalent rating by another qualified rating agency prior to their sale.

Project revenue debt pledges only the revenues produced by the project so funded as security for repayment and does not directly obligate the Commonwealth. Kentucky's project revenue debt may be further classified by the purpose of the debt. Revenue debt issued by the Kentucky Housing Corporation, Kentucky Infrastructure Authority, Kentucky Higher Education Student Loan Corporation, Kentucky Economic Development Finance Authority, Kentucky Local Correctional Facilities Construction Authority, Kentucky Agricultural Finance Corporation, and Kentucky School Facilities Construction Commission is used as a financing mechanism for activities and facilities not used directly for State purposes. The tax-exempt status of such municipal debt, whether issued by State or local governments, is used to provide financing for entities unable to bear the costs of private financing when the General Assembly deems such entities worthy of public assistance. The other category of revenue debt finances facilities used directly by State Government in activities such as roads, parks, office buildings, and educational facilities. The primary distinction between these categories is that the first type, with the exceptions of the Kentucky School Facilities Construction Commission, which succeeds the Kentucky School

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Building Authority, and the Kentucky Infrastructure Authority, which succeeds the Kentucky Pollution Abatement and Water Resources Finance Authority, requires no State funds of any type to provide debt service, principal and interest payments on the debt. The School Facilities Construction Commission supplements funds provided by local governments and school boards in varying percentages for debt service. The Kentucky Infrastructure Authority may accept appropriations made by the General Assembly, in addition to State and Federal grants, related to the purposes for which it was created. This distinction is important in analyzing the true level of State debt and the burden of that debt on State resources.

During the fiscal year ended June 30, 2010 the debt issuing entities described below sold revenue and revenue refunding bonds as follows:

The Kentucky State Property and Buildings Commission is an independent agency of the Commonwealth created by KRS 56.450 and empowered upon application of any State agency to issue bonds in its own name to pay the costs of acquiring land and equipment, and the construction and equipping of buildings for the occupancy and/or use of said agencies.

The Commission issued \$807,490,000 in revenue and revenue refunding bonds as follows:

\$392,465,000 Project 95 Revenue and Revenue Refunding Bonds, dated July 9, 2009. These bonds consists of: \$138,310,000 Series A (Revenue Refunding) serial bonds maturing February 1, 2010 through August 1, 2020 and carry interest rates of 2.00% to 5.00%; \$44,925,000 Series B (Federal Taxable—Revenue and Revenue Refunding) serial bonds maturing August 1, 2010 through August 1, 2013 and carry interest rates of 2.00% to 4.004%; and \$209,230,000 Series C (Federally Taxable-Build America Bonds) Term Bonds, consisting of: \$71,995,000 6.164% Term Bonds due August 1, 2023, and \$137,235,000 6.573% Term Bonds due August 1, 2029.

\$401,345,000 Project 96, Revenue Bonds, dated November 17, 2009. The issue consists of: \$47,980,000 Series A Serial Bonds maturing November 1, 2012 through November 1, 2014 carrying interest rates of 3.00% to 5.00%; \$4,460,000 4.25% Term Bonds due November 1, 2029; \$11,650,000 5.00% Term Bonds due November 1, 2029; Series B (Federally Taxable) \$7,085,000 .720% Term Bonds due November 1, 2010; and \$7,085,000 1.627% Term Bonds due November 1, 2011; Series C (Federally Taxable-Build America Bonds-Direct Payment to the Commission) \$92,920,000 Serial Bonds maturing November 1, 2015 through November 1, 2019 and carry interest rates of 4.077% to 5.061%; \$63,910,000 5.561% Series C Term Bonds due November 1, 2022; and \$166,255,000 6.155% Series C Term Bonds due November 1, 2029.

\$13,680,000 Project 73 Road Fund Revenue Refunding Bonds (Third Series Bonds), dated January 6, 2010. The bonds mature May 1, 2010 through November 1, 2014, and carry interest rates of 1.00% to 2.25%.

The Turnpike Authority of Kentucky was created in the 1960 regular session of the General Assembly under present KRS sections 175.410 through 175.990 as a body corporate and politic constituting a municipal corporation, political subdivision, and instrumentality of the Commonwealth. The Authority is composed of the Governor, Lieutenant Governor, Attorney General, and Secretary of Transportation, Commissioner of Highways, State Highway Engineer, and Secretary of Economic Development. The Director of the Office of Financial Management currently serves as the Authority's Treasurer.

The Authority issued the following bonds during fiscal year 2010:

\$153,260,000 Economic Development Road Revenue and Revenue Refunding Bonds (Revitalization Projects), 2010 Series A, dated June 25, 2010. The bonds mature July 1, 2013 through July 1, 2020, and carry interest of 2.00% to 5.00%.

\$187,640,000 Economic Development Road Revenue Bonds (Revitalization Projects) (Federally Taxable-Build America Bonds-Direct to the Authority), 2010 Series B, dated June 25, 2010, consisting of: \$91,015,000 5.244% Term Bonds due July 1, 2025 and \$96,625,000 5.722% Term Bonds due July 1, 2030.

Kentucky Gas Pipeline Authority is a body corporate and politic to provide a financing mechanism for projects that will increase severance tax revenue for Kentucky, create jobs for Kentuckians, and create a competitive advantage in environmentally responsible development.

The authority issued no bonds during fiscal year 2010.

State Universities - The Board of Trustees of the University of Kentucky and the Boards of Regents of the University of Louisville, Eastern Kentucky University, Western Kentucky University, Murray State University, Morehead State University, Kentucky State University, and Northern Kentucky University are authorized under KRS 56.495 to issue debt for the purpose of constructing educational buildings and housing and dining facilities. In addition, the University of Louisville is specifically authorized to issue debt for educational buildings under KRS 64.860 but is limited to \$16 million of refunding debt.

State supported universities issued \$142,090,000 in General Receipts Bonds to finance various new construction projects and renovation of existing facilities as follow

University of Kentucky issued \$100,605,000 of University of Kentucky General Receipt Bonds, Taxable Build America Bonds, 2009 Series B,

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dated November 24, 2009. The bonds consist of: \$26,380,000 Serial Bonds maturing November 1, 2017 through November 1, 2024 and carry interest rates of 3.95% to 5.15%; \$20,400,000 5.35% Term Bonds due November 1, 2029 and \$53,825,000 5.70% Term Bonds due November 1, 2039.

Morehead State University issued \$28,930,000 General Receipts Bonds, Taxable Build America Bonds, 2009 Series A, dated July 29, 2009. The bonds consist of: \$21,160,000 Serial Bonds maturing November 1, 2010 through November 1, 2024 and carry interest rates of 2.00% to 5.90%; \$3,735,000 6.00% Term Bonds due November 1, 2026 and \$4,035,000 6.00% Term Bonds due November 1, 2028.

\$5,770,000 General Receipts Bonds, Taxable Build America Bonds, 2010 Series A, dated June 29, 2010. The bonds consist of: \$2,340,000 serial bonds maturing November 1, 2011 through November 1, 2019 and carry interest rates of 1.270% to 4.200%; \$600,000 4.600% Term Bonds due November 1, 2021; \$640,000 4.800% Term Bonds due November 1, 2023; \$680,000 5.200% Term Bonds due November 1, 2025; 725,000 5.600% Term Bonds due November 1, 2027 and \$785,000 5.750% Term Bonds due November 1, 2029.

Northern Kentucky University issued \$6,785,000 Northern Kentucky University General Receipts Bonds 2010 Series A, dated July 29, 2010. The bonds mature September 1, 2010 through September 1, 2020 and carry interest rates of 2.000% to 3.500%.

The Kentucky Housing Corporation was established in 1972 under KRS Chapter 198A, as a municipal corporation. The Corporation is authorized to increase the supply of housing for persons of lower income by making or participating in insured construction loans, and making or participating in insured mortgage loans when financing is not available from private lenders under reasonably equivalent terms and conditions. The Corporation is limited to a \$2.125 billion total maximum principal value of debt outstanding.

The Corporation issued \$160,000,000 in Housing Revenue Bonds which consisted of the following:

\$60,000,000 Housing Revenue Bonds, Series B (NON-AMT) dated October 1, 2009 consisting of: \$12,080,000 Serial Bonds maturing semi annually July 1, 2010 and January 1, 2011 through July 1, 2019 and carry interest rates of 1.050% to 3.875%; \$8,265,000 4.625% Term Bonds due July 1, 2024; \$3,870,000 4.750% Term Bond due July 1, 2026; \$6,545,000 4.850% Term Bond maturing July 1, 2029; \$13,075,000 5.000% Term Bond maturing July 1, 2035 and \$16,165,000 5.150% Term Bond due July 1 2039.

\$100,000,000 Housing Revenue Bonds, dated April 1, 2010. \$40,000,000 2010 Series A (NON-AMT) consisting of: \$29,450,000 Serial Bonds maturing semi annually January 1, 2010 through July 1, 2023 and carry interest rates of .50% to 3.95% and \$10,550,000 5.00% Term Bond due January 1, 2027. \$60,000,000 2009 Series C-1 (NON-AMT) 3.81% Term Bond due July 1, 2041.

The Kentucky Infrastructure Authority was created by House Bill 217, passed into law during the 1988 regular session of the Kentucky General Assembly, to assist governmental agencies of the State with respect to the construction and acquisition of infrastructure projects as defined in the legislation. Pursuant to this Act, which amends KRS Chapter 224A, all powers, duties, and obligations of the Kentucky Pollution Abatement and Water Resources Finance Authority, including administration of debt service on revenue bonds previously issued by the Authority, are transferred to the Kentucky Infrastructure Authority, which is established as a body corporate and politic, constituting a public corporation and a governmental agency and instrumentality of the State.

The Corporation issued \$208,430,000 of Revolving Fund Revenue Bonds during the year ended June 30, 2010 which consisted of the following:

\$208,430,000 Wastewater and Drinking Water Revolving Fund Revenue Bonds, Series 2010A dated April 15, 2010. The bonds mature February 1, 2011 through February 1, 2029 and carry interest rates of 1.500% to 5.000%.

The Kentucky Higher Education Assistance Authority is the Commonwealth of Kentucky's agency for improving higher education opportunities by insuring eligible student loans and providing other financial aid and related services to eligible students. The Authority is an issuer of student loans pursuant to the Federal Higher Education Act of 1965, as amended in Kentucky and Alabama. As such, the Authority is responsible for issuing loan insurance, providing collection assistance to lenders for delinquent loans, paying lender claims for loans, and collecting defaulted loans on which claims have been paid.

The Kentucky Higher Education Student Loan Corporation is empowered by KRS Chapter 164A to make and reinsure student loans with the United States of America, pursuant to the Federal Higher Education Act of 1965, and as a body corporate and politic acts as a financing authority to assure a secondary market for insured student loans. The Corporation is governed by board of directors appointed by the Governor, as prescribed in KRS 164A.050. The Corporation is limited to a maximum principal outstanding of \$5 billion.

The Corporation issued \$210,710,000 in Student Loan Revenue Bonds, Series 2010-1 (Tax-Exempt Non-AMT Libor Floating rate Bonds) dated June 22, 2010 consisting of Class A-1 Bonds and Class A-2 Bonds which carry variable interest rates that change based on specified indices, as follows: \$75,050,000 Class A-1 maturing May 1, 2020. These bonds will bear interest, except for the initial accrual period, at an annual rate equal to 100% of three-month LIBOR as of the second business day prior to the applicable interest accrual period plus .50%; \$135,660,000 Class A-2 maturing May 1, 2034. These bonds will bear interest, except for the initial accrual period,

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at an annual rate equal to 100% of three-month LIBOR as of the second business day prior to the applicable interest accrual period plus 1.20%.

The Kentucky Local Correctional Facilities Construction Authority

is a body corporate and politic as well as an agency and instrumentality of the Commonwealth created in 1982 pursuant to KRS 441.605 through 441.695, as amended, to provide additional and alternative methods for acquiring, constructing, improving or repairing, and financing both regional and local jail facilities.

The authority issued no bonds during fiscal year 2010.

The School Facilities Construction Commission was created by act of the 1985 Extraordinary Session of the Kentucky General Assembly as the successor agency to the Kentucky School Building Authority (KSBA) and empowered pursuant to KRS 157.640 with all rights of successorship necessary to assure all legal and contractual functions and liabilities associated with the outstanding bonds issued in the name of the Authority, including refunding of then existing Authority debt. The Commission is an independent corporate agency and instrumentality of the Commonwealth pursuant to KRS 157.611 through 157.640 and empowered therein to: (1) act on behalf of local school districts to issue bonds in the name of the Commission and to enter into lease agreements with local boards of education to finance construction of new facilities or major renovation of existing facilities; (2) enter into agreements which may provide for a percentage discount, on a biennially renewable basis, of annual lease agreements due the Commission for those districts which participate; and (3) enter into lease agreements with the Department of Education to build State-owned facilities operated by the Department of Education.

During the fiscal year ended June 30, 2010, the Commission sold \$72,770,735 school building revenue and revenue refunding bond issues having aggregate state participation of \$72,770,735 maturing through June 1, 2030, at interest rates of 1.400% to 4.000%. Due to the length of the listing, the reader is referred to the detail Schedule of Bonds Outstanding at June 30, 2010, which is contained in the publication titled SUPPLEMENTARY INFORMATION to the Kentucky Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2010. Copies of this report are available from the Division of Statewide Accounting, Financial Reporting Branch, 484 Capitol Annex, Frankfort, Kentucky 40601.

The Kentucky Agricultural Finance Corporation is a public corporation and governmental agency of the Commonwealth established by Act of the 1984 General Assembly for the purpose of "improving and promoting the health, welfare, and prosperity of the people of the Commonwealth through the stimulation of existing agricultural ventures." The Authority's bond program is designed to help lender banks and other financial institutions assist eligible farmers in obtaining low interest loans through the issuance of tax-exempt agricultural revenue bonds. The Authority's debt does not

constitute a legal or moral obligation of the Commonwealth, and this debt is not included in these general-purpose financial statements.

The Corporation issued no bonds during the fiscal year ended June 30, 2010.

The Kentucky Economic Development Finance Authority

established in 1958 under KRS Chapter 154, is an independent agency of the Commonwealth that operates in close cooperation with the Secretary of the Economic Development Cabinet to promote the industrial development of Kentucky.

The Authority issued no bonds during the fiscal year ended June 30, 2010.

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The agencies and authorities that issue debt and their respective amounts of principal outstanding, net of discounts and defeased bonds, at June 30, 2010, are as follows (Expressed in Thousands):

Long-Term Obligations	Principal Outstanding	Interest Rate	Annual Maturity To
Agency:			
State Property and Buildings Commission	\$ 3,825,540	1.00%-7.65%	2029
Kentucky School Facilities Construction Commission	798,526	1.00%-6.50%	2031
Turnpike Authority of Kentucky	1,335,780	2.00%-5.75%	2030
Total	<u>\$ 5,959,846</u>		

Future revenue bond debt service requirements, to be paid with State Funds, at June 30, 2010, are as follows (Expressed in Thousands):

Year Ending June 30	Principal	Interest	Totals
2011	\$ 331,879	\$ 256,854	\$ 588,733
2012	309,127	243,781	552,908
2013	319,892	244,574	564,466
2014	339,214	229,037	568,251
2015	358,743	212,911	571,654
2016-2020	1,887,944	805,505	2,693,449
2021-2025	1,448,532	393,765	1,842,297
2026-2030	943,713	99,534	1,043,247
2031-2035	20,802		20,802
Total	<u>\$ 5,959,846</u>	<u>\$ 2,485,961</u>	<u>\$ 8,445,807</u>

Component Unit Revenue Bonds Payable	Principal Outstanding	Interest Rate	Annual Maturity To
Kentucky Housing Corporation *	\$ 2,236,735	0.50-6.06%	2042
Kentucky Infrastructure Authority	317,245	1.50-6.0%	2029
Kentucky Higher Education Student Loan Corporation	1,217,410	0.25-1.848%	2038
Kentucky Local Correctional Facilities Construction Authority *	11,745	5.25-5.25%	2015
University of Kentucky	254,110	2.25-4.66%	2040
University of Louisville	309,905	1.50-6.46%	2035
Eastern Kentucky University	37,020	4.0-4.80%	2024
Western Kentucky University	191,550	1.50-5.00%	2028
Murray State University *	44,080	1.10-5.4%	2029
Morehead State University	53,355	1.27-6.0%	2029
Kentucky State University*	5,810	2.0-3.2%	2027
Northern Kentucky University	86,180	2.00-6.10%	2029
Total Component Unit Revenue Bonds Payable	<u>\$ 4,765,145</u>		

* Amounts reflect original issue

Future revenue bond debt service requirements for bonds issued by the Commonwealth's Component Units at June 30, 2010, are as follows (Expressed in Thousands):

Year Ending June 30	Principal	Interest	Totals
2011	\$ 135,030	\$ 163,576	\$ 298,606
2012	136,360	161,437	297,797
2013	133,445	156,324	289,769
2014	134,626	150,870	285,496
2015	137,820	145,252	283,072
2016-2020	750,230	640,980	1,391,210
2021-2025	689,240	480,800	1,170,040
2026-2030	1,073,094	318,806	1,391,900
2031-2035	908,075	147,837	1,055,912
2036-2040	544,435	25,957	570,392
2041-2045	122,790	82	122,872
Total	<u>\$ 4,765,145</u>	<u>\$ 2,391,921</u>	<u>\$ 7,157,066</u>

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NOTES PAYABLE:

At June 30, 2010, the following entities had notes payable as follows:

The Kentucky Asset/Liability Commission, created by House Bill 5 enacted by the 1997 Extraordinary Session of the Kentucky General Assembly, develops policies and strategies to minimize the impact of fluctuating interest rates on the Commonwealth's interest-sensitive assets and liabilities. It is authorized to issue tax and revenue anticipation notes, project notes and funding notes. Tax and revenue notes are to be used for the purpose of providing monies to discharge expenditure demands in anticipation of revenues and taxes to be collected during the fiscal year. Project notes are to be used for authorized projects upon request of the Finance and Administration Cabinet, to be repaid through financing agreements or alternative agreements. Funding notes are to be used for the purpose of funding judgments against the Commonwealth or any state agency.

The commission issued \$89,710,000 in Project Notes 2010 Federal Highway Trust Fund First Series A, matures September 1, 2020 through September 1, 2022, carrying rates of 3.30% to 5.00%. The project to be funded consists of preconstruction development activities related to the Louisville-Southern Indiana Ohio River Bridges Project.

The Component Units of the Commonwealth reported notes payable of \$1,372,487,000 in their individual audited financial statements, details concerning their notes payable are presented in the notes to those financial statements. A copy of their individual financial statements may be obtained from the component unit, at the address shown on pages 110 and 111.

Other Long-term Liabilities - The General Fund, special revenue, and internal service funds in which leases are recorded will liquidate the capital lease obligations. The compensated absences will be liquidated by applicable governmental and internal service funds that account for the salaries and wages of the related employees. The net pension obligations will be liquidated by the State's governmental and internal service funds that contribute toward the pension funds, based on the statutorily required contribution rates. The General Fund and transportation-related Special Revenue fund will generally liquidate other claims and judgments attributable to the governmental activities.

Pollution Remediation Liabilities - GASB Statement 49 establishes the guidance reporting entities are to use in estimating and reporting potential cost which may be incurred for pollution remediation. GASB 49 requires the Commonwealth to reasonably estimate and report a remediation liability when any of the following obligating events has occurred:

Pollution poses an imminent danger to the public and the Commonwealth is compelled to take action;

The Commonwealth is in violation of a pollution related permit or license;

The Commonwealth is named or has evidence that it will be named as a responsible party by a regulator;

The Commonwealth is named or has evidence that it will be named in a lawsuit to enforce a cleanup; or

The Commonwealth commences or legally obligates itself to conduct remediation activities.

The Commonwealth has remediation activities underway and these are in stages from site investigation, planning and design, clean up, and site monitoring. Several agencies, within state government, have as a part of their mission the responsibility to investigate possible pollution sites, and oversee the remediation of those sites. These agencies have the expertise to estimate the remediation obligations presented herein based on prior experience in identifying and funding similar remediation activities. The remediation liabilities reported have been calculated using the expected cash flow technique. Situations posing potential liabilities, for which a reasonable estimate could not be made, have not been included.

The remediation obligation estimates presented in this report are subject to change over time. Cost may vary due to price fluctuations, changes in technology, changes in potential responsible parties, results of environmental studies, changes to statutes or regulations and other factors that could result in revisions to the estimates. Prospective recoveries from responsible parties may reduce the Commonwealth's obligation.

The amounts recorded as obligations are shown in the accompanying chart.

Unemployment Insurance Liability - The downturn in the economy created an increased demand for unemployment insurance payments. The increased demand depleted the funds the Commonwealth had on deposit with Federal government to pay claims. As a result, the Commonwealth has borrowed money from the Federal government to pay unemployment insurance claims. At June 30, 2010 the amount borrowed was \$795.1 million. The loan is interest free, if repaid by January, 2011. The Commonwealth is reviewing ways to repay the loan and replenish the insurance fund.

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***Future debt service requirements for aggregated Notes Payable for the Primary Government
at June 30, 2010, are as follows (Expressed in Thousands)***

Year Ending June 30	Principal	Interest	Totals
2011	\$ 63,920	\$ 48,931	\$ 112,851
2012	58,825	46,338	105,163
2013	58,555	43,680	102,235
2014	61,265	40,943	102,208
2015	59,690	38,181	97,871
2016-2020	371,630	143,031	514,661
2021-2025	325,260	55,788	381,048
2026-2030	90,595	5,841	96,436
Total	<u>\$ 1,089,740</u>	<u>\$ 422,733</u>	<u>\$ 1,512,473</u>

***Future debt service requirements for aggregated Notes Payable for the Component Units at
June 30, 2010, are as follows (Expressed in Thousands)***

Year Ending June 30	Principal	Interest	Totals
2011	\$ 593,289	\$ 8,292	\$ 601,581
2012	13,463	7,235	20,698
2013	3,574	5,787	9,361
2014	746,902	4,120	751,022
2015	2,708	682	3,390
2016-2020	5,714	2,183	7,897
2021-2025	2,177	1,436	3,613
2026-2030	2,705	877	3,582
Thereafter	1,955	163	2,118
Total	<u>\$ 1,372,487</u>	<u>\$ 30,775</u>	<u>\$ 1,403,262</u>

Changes in long-term liabilities for the fiscal year ended June 30, 2010, are summarized as follows (Expressed in Thousands):

	Beginning Balance (Restated)	Additions	Reductions	Ending Balance	Due In One Year	Due Thereafter
Governmental Activities						
Compensated absences	\$ 213,699	\$ 10,010	\$ (2,709)	\$ 221,000	\$ 139,750	\$ 81,250
Capital leases	26,638	15,499	(9,796)	32,341	8,673	23,668
Claims liability	156,166	64,415	(62,062)	158,519	18,131	140,388
Notes payable	1,059,520	89,710	(59,490)	1,089,740	63,920	1,025,820
Bonds payable	5,252,009	1,221,161	(513,324)	5,959,846	331,879	5,627,967
Unamortized premiums	234,300	37,442	(18,233)	253,509	14,117	239,392
Unamortized discounts	(16,685)	(2,619)	4,316	(14,988)	(835)	(14,153)
Deferred amount on refunding	(14,275)	3,810	1,780	(8,685)	(484)	(8,201)
Judgments and contingent liabilities	136,402	5,812	(104,605)	37,609	25,771	11,838
Pollution remediation liabilities	39,379	4,029	(8,391)	35,017	5,786	29,231
Unfunded employer pension contributions	2,846,221	991,871		3,838,092		3,838,092
Total Governmental Activities	<u>9,933,374</u>	<u>2,441,140</u>	<u>(772,514)</u>	<u>11,602,000</u>	<u>606,708</u>	<u>10,995,292</u>
Business-Type Activities						
Compensated absences	8,967	2,523	(2,712)	8,778	5,355	3,423
Capital leases	211		(84)	127	65	62
Claims and claims adjustment liability	1,189,286	1,583,196	(1,621,502)	1,150,980	192,154	958,826
Prize liability	149,955	7,113	(34,072)	122,996	47,062	75,934
Judgments and contingent liabilities	16	141	(31)	126	126	
Loans payable to the Federal government	301,900	493,162		795,062		795,062
Total Business-Type Activities	<u>1,650,335</u>	<u>2,086,135</u>	<u>(1,658,401)</u>	<u>2,078,069</u>	<u>244,762</u>	<u>1,833,307</u>
Total Primary Government	<u>\$ 11,583,709</u>	<u>\$ 4,527,275</u>	<u>\$ (2,430,915)</u>	<u>\$ 13,680,069</u>	<u>\$ 851,470</u>	<u>\$ 12,828,599</u>
Major Component Units						
Compensated absences	\$ 17,778	\$ 13,549	\$ (12,884)	\$ 18,443	\$ 13,621	\$ 4,822
Capital leases	500,731	63,768	(41,481)	523,018	33,700	489,318
Notes payable	543,625	1,574,701	(773,592)	1,344,734	588,176	756,558
Bonds payable	4,875,818	627,158	(1,480,742)	4,022,234	88,064	3,934,170
Total Major Component Units	<u>\$ 5,937,952</u>	<u>\$ 2,279,176</u>	<u>\$ (2,308,699)</u>	<u>\$ 5,908,429</u>	<u>\$ 723,561</u>	<u>\$ 5,184,868</u>

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Interest Rate Swap Agreements - The Commonwealth currently has four outstanding interest rate swaps. Each of these swaps were entered into to synthetically fix the interest rate on floating rate notes. The notes were issued concurrent with the execution of the swap. Each of the interest rate swaps amortizes to match the sinking fund schedule of the hedged notes. Additionally, the maturities exactly match the maturity schedule of the hedged debt. Note: The fair values are model determined values reconciled to indicative pricing from the counter-party.

Credit Risk - There are certain collateral requirements triggered by credit rating thresholds for the Commonwealth State Property and Building Commission and for credit ratings and minimal capital requirements of the counterparty. Those thresholds are not being met as of June 30, 2010. There is no collateral pledged by either party to the interest rate swaps. The Commonwealth's credit risk is limited to the market value of the individual interest rate swaps. The counterparty is rated at A1/A+/A+ by Moody's, S&P, and Fitch respectively.

Interest Rate Risk - The Commonwealth's interest rate swaps were designed to synthetically fix the rate on four floating rate debt issuances. In order to achieve this goal, the amortization schedules,

floating rate formula and index, repricing dates and other variables of both the floating rate side of the swap and the debt are exactly matched. Using the Synthetic Instrument Method for determining hedge effectiveness showed a 100% for each derivative. Because the repricing dates, formulas and indices are identical, there is no basis risk.

Termination Risk - Mandatory termination of each of these swaps would be triggered if the credit ratings of the Commonwealth State Property and Building Commission were to fall below BBB by Standard and Poor's or Baa2 by Moody's or if the credit ratings of the counterparty were to fall below A3 by Moody's or A- by Standard and Poor's or if the credit ratings of the insurer falls below A3 by Moody's and A- by Standard and Poor's. Additional mandatory termination events include default, merger without assumption and failure to perform under the ISDA or indenture by any of the parties. The Commonwealth has the right to exercise optional early termination on each of these swaps with the consent of the insurer. The counterparty does not have the right of optional early termination. Any early termination shall occur at then current market levels.

The following table provides descriptive information for each interest rate swap.

Terms of each Hedging Derivative
Cashflow Interest Rate Swaps
at June 30, 2010 (Expressed in Thousands)
Governmental Activities

Project Notes	Effective Date	Notional Amounts		Maturity Date	Pay-Fixed		Fair Value 6/30/2009	Fair Value 6/30/2010	Change in Fair Value
		Original	Outstanding		Rate	Variable Rate			
2007 ALCo	5/31/2007	\$ 25,210	\$ 19,295	11/1/2017	3.839%	67% 3M LIBOR +.4%	\$ (1,329)	\$ (1,582)	\$ (253)
2007 ALCo	5/31/2007	71,310	69,055	11/1/2021	4.042%	67% 3M LIBOR +.52%	(6,365)	(9,249)	(2,884)
2007 ALCo	5/31/2007	70,935	70,935	11/1/2025	4.125%	67% 3M LIBOR +.55%	(8,336)	(12,210)	(3,874)
2007 ALCo	5/31/2007	75,625	68,135	11/1/2027	4.066%	67% 3M LIBOR +.53%	(6,579)	(9,193)	(2,614)
Total		<u>\$ 243,080</u>	<u>\$ 227,420</u>				<u>\$ (22,609)</u>	<u>\$ (32,234)</u>	<u>\$ (9,625)</u>

* The Change in Fair Value is classified as Deferred Outflow of Resources on the Statement Of Net Assets

** The Total Outstanding Notional Amount equals the outstanding note liability which is classified as a liability on the Statement of Net Assets

Governmental Activities
Future debt service requirements for aggregated ALCo Notes Associated with Interest Rate Swaps at
June 30, 2010, are as follows
(Expressed in Thousands)

Year Ending June 30	Principal	Interest	Net Swap	Totals
			Payments	
2011	\$ 5,365	\$ 2,012	\$ 7,110	\$ 14,487
2012	5,580	2,098	6,806	14,484
2013	5,810	2,072	6,606	14,488
2014	6,045	2,030	6,412	14,487
2015	6,295	1,986	6,211	14,492
2016-2020	63,475	13,891	21,269	98,635
2021-2025	104,690	5,139	12,432	122,261
2026-2030	30,160	(1,024)	2,271	31,407
Total	<u>\$ 227,420</u>	<u>\$ 28,204</u>	<u>\$ 69,117</u>	<u>\$ 324,741</u>

Note 16**COMMITMENTS AND CONTINGENCIES**

Litigation - The Commonwealth, its units and employees are parties to numerous legal proceedings, many of which normally occur in governmental operations. The legal proceedings are not, in the opinion of the Attorney General, likely to have a material adverse impact on the Commonwealth's financial position.

The Kentucky Retirement Systems (KRS), a blended component unit of the Commonwealth, is involved in litigation claiming age discrimination. The case challenges Kentucky's civil service retirement laws and seeks restitution on behalf of all public retirees who received a normal pension rather than a disability pension. The KRS has prevailed in the court decisions and legal council is confident they will continue to prevail. Should the previous decisions be reversed, KRS cannot estimate the impact on the liability and future funding requirements.

In addition, the Commonwealth and its units are involved in certain other legal proceedings which, if decided adversely to the Commonwealth, may require the Commonwealth to make material future expenditures for expanded services or capital facilities, may impair future revenue sources, or may require the refund of prior collections. It is neither possible to determine the outcome of these proceedings nor to estimate the possible effects adverse decisions may have on the future expenditures or revenue sources of the Commonwealth.

Judgments and Contingencies – A claim is a suit that has been filed but there has been no decision rendered by the court systems. Amounts reported include claims made against the Commonwealth during the period preceding June 30 of the current fiscal year. Claims are classified according to their chance of occurrence as either remote, possible, or probable. Claims are further classified as payable within one year, within future periods, or a combination of the two periods.

A judgment is any amount that is to be repaid as the result of a court decision or an award for the condemnation of private property. Reasons for such amounts also arise from employment, contracts, and government involvement of personnel or property. The General Fund, the Agency Revenue Fund, the Transportation Fund, and the State Parks Fund generally pay claims and judgments. These amounts are classified as either payable within one year, in future periods, or a combination of the two periods if they remain unpaid after June 30 of the current fiscal year.

Federal Grants - The Commonwealth receives significant financial assistance from the U.S. Government in the form of grants and Federal revenue sharing entitlements. Entitlement to these resources is generally conditioned upon compliance with terms and conditions of the grant agreements and applicable Federal regulations, including the expenditure of the resources for eligible purposes. Substantially all grants are subject to financial and compliance audits by the grantors. Any disallowance as a result of these audits becomes a liability of the Commonwealth.

Leases - The Commonwealth has entered into various operating leases for land and buildings. All leases contain termination clauses providing for the cancellation after 30, 60, or 90 days written notice to the lessors. In addition, all leases contain appropriation clauses indicating that continuation of the lease is subject to funding by the legislature. It is expected that in the normal course of business, similar leases will replace most of these leases. Primary Government expenditures for rent under leases for the years ended June 30, 2010 and 2009 amounted to \$124.2 million and \$113.8 million, respectively. The operating leases of the Commonwealth do not contain escalation clauses for rental or expense that would require adjustment to be in compliance with GASB Statement 13.

Compensated Absences – Compensated absences include accumulated, unpaid vacation and compensatory time accruals. The amount accruing to proprietary funds has been included in the respective funds when material. The policy of the Commonwealth is to record the cost of annual and compensatory leave. Annual leave is accumulated at amounts ranging from 7.5 to 15.00 hours per month, as determined by the length of service, with the maximum accumulations ranging from 30 to 60 days. The calendar year is the period used for determining accumulated leave. Compensatory leave is granted to authorized employees on an hour-for-hour basis or a time and one half basis. Compensated absences are generally paid from the General Fund, the Transportation Fund, the Federal Fund, the Agency Revenue Fund, and the Other Special Revenue Fund. At June 30, 2010, the estimated liability for annual and compensatory leave was \$221,000,000 for the governmental activities, and \$8,778,000 in the business-type activities.

Compensated absence liabilities for the major component units totaled \$18,443,000 at June 30, 2010.

Sick Leave - The policy of the Commonwealth is to record the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee is absent due to illness, injury, or related family death, there was no liability recorded for sick leave at June 30, 2010. The estimated accumulated amount of unused sick leave at that date for the governmental and business-type activities was \$315,380,318 and \$11,569,796, respectively.

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2010

Construction Projects - The Transportation Cabinet, at June 30, 2010, had contractual commitments of approximately \$994,497,429 for the construction, maintenance and operation of the highway system. It is anticipated that these projects will be funded with approximately 23 percent State funds, 61 percent Federal funds, and the remaining 16 percent with proceeds from the sale of revenue bonds.

Deferred Revenue—Deferred revenue may result from the recognition of assets before the earnings process is complete (unearned revenue), or if using the modified accrual basis of accounting, deferred revenue may represent unavailable revenues. “Unavailable” means that the assets are not available to finance expenditures of the current fiscal period. Regardless of whether the deferred revenue is unearned or unavailable, it is still reported as a contingent liability.

Note 17

SUBSEQUENT EVENTS

The debt-issuing entities of the Commonwealth issued or agreed to administer State participation in debt service payments for revenue bonds sold after June 30, 2010, and prior to December 31, 2010, and reported other subsequent events for the same period, as described below.

The State Property and Buildings Commission issued \$3,430,000 Project No. 97 Taxable Agency Revenue Bonds, dated July 22, 2010. These Series 2010 Serial Bonds mature June 1, 2011 through June 1, 2025 and carry interest rates of 1.25% to 5.45%. The net proceeds will be used for the construction of a hanger at Bluegrass Station in Lexington, Kentucky, for benefit of the State Agency.

\$153,965,000 Project No. 98, Revenue and Revenue Refunding Bonds, dated July 13, 2010, were issued. These Bonds mature August 1, 2011 through August 1, 2021 carrying interest rates of 2.00% to 5.00%. The bonds will be used to refund certain outstanding bonds of the Commission, to refund certain outstanding notes of the Kentucky Asset/Liability Commission and fund various projects for State agencies and component units.

\$323,380,000 Project No. 99, Revenue Bonds, dated November 17, 2010, was issued. These bonds consist of: \$98,065,000 Series A serial bonds maturing November 1, 2012 through November 1, 2021 and carrying interest rates of 2.00% to 5.00%; \$10,325,000 Series B (Federally Taxable) serial bonds maturing November 1, 2012 and carrying an interest rate of 1.65%; \$31,640,000 Series C (Federally Taxable—Build America Bonds—Direct Payment to the Commission) Serial Bonds maturing November 1, 2019 through November 1, 2020 and carrying interest rates of 4.303% to 4.403%; \$73,785,000 5.373% Series C Term Bonds due November 1, 2025 and \$109,565,000 5.921%

Series C Term Bonds due November 1, 2030. The net proceeds will be used to fund various projects for State agencies and component units.

The Kentucky Asset/Liability Commission issued \$467,555,000 Funding Notes, 2010 General Fund First Series (Taxable), dated August 26, 2010, to fund state medical insurance obligations of the Teachers Retirement System of the Commonwealth of Kentucky. These notes consists of \$137,975,000 of notes bearing interest rates of .841% to 4.204% maturing April 1, 2011 through April 1, 2020 and \$329,580,000 3.165% Term Bonds due April 1, 2018.

The Kentucky Housing Corporation issued \$176,000,000 of Housing Revenue Bonds dated August 12, 2010, consisting of: \$26,220,000 Series B (Non-AMT) Serial Bonds maturing semi annually January 1 and July 1, 2011 through July 1, 2022 carrying interest rates of .500% to 3.950%; \$3,505,000 4.05% Series B Term Bonds (Non-AMT) due January 1, 2024; \$10,275,000 5.00% Series B Term Bonds (Non-AMT) due July 1, 2027; \$1,245,000 4.375% 2010 Series C Term Bonds (Non-AMT) due July 1, 2027; \$8,755,000 4.625% 2010 Series C Term Bonds (Non-AMT) due July 1, 2033; \$22,230,000 2010 Series D (AMT) bonds maturing semi annually January 1 and July 1, 2015 through July 1, 2020 and carrying an interest rate of 3.05% to 4.40%; \$19,435,000 5.125% 2010 Series D Term Bonds (AMT) due July 1, 2025; \$4,335,000 5.250% 2010 Series D Term Bonds (AMT) due January 1, 2027; \$1,555,000 2010 Series E (Non-AMT) bonds maturing July 1, 2020 through July 1, 2023 and carrying an interest rate of 3.65% to 4.00%; \$7,370,000 4.50% 2010 Series E Term Bonds (Non-AMT) due July 1, 2030; \$11,075,000 4.75% 2010 Series E Term Bonds (Non-AMT) due July 1, 2035 and \$60,000,000 3.81% 2010 Series C Term Bonds, subseries C-2 (Non-AMT) due July 1, 2041. The proceeds will be used to finance mortgage loans for persons and families of lower and moderate income in the Commonwealth.

University of Kentucky issued \$25,325,000 General Receipts Bonds, dated November 17, 2010. The bonds consist of \$12,370,000 Taxable Build America Bonds, Series A maturing October 1, 2011 through October 1, 2024 and carrying interest rates of .500% to 4.500% and \$12,955,000 Taxable Qualified Energy Conservation Bonds, 2010 Series B maturing October 1, 2024 carrying an interest rate of 4.700%. The proceeds of the bond will be used for a project consisting of multiple energy conservation measures within sixty-one (61) educational and general buildings on the main campus.

Northern Kentucky University issued \$12,265,000 General Receipts Refunding Bonds, 2010 Series B, dated October 21, 2010. These bonds mature March 1, 2011 through September 1, 2027 carrying interest rates of 2.000% to 3.750%. The proceeds of the bond will be used to refund in advance of maturity the principle amount maturing on or after December 1, 2013 of a certain Facilities Lease dated as of July 1, 2002 between Fifth Third Leasing Company and the Commonwealth of Kentucky.

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2010

School Facilities Construction Commission administers the Commonwealth's participation in the debt service payments of local public school district revenue bonds issued subsequent to June 30, 2010, and maturing as to principal through 2030 as displayed in the table on page 108.

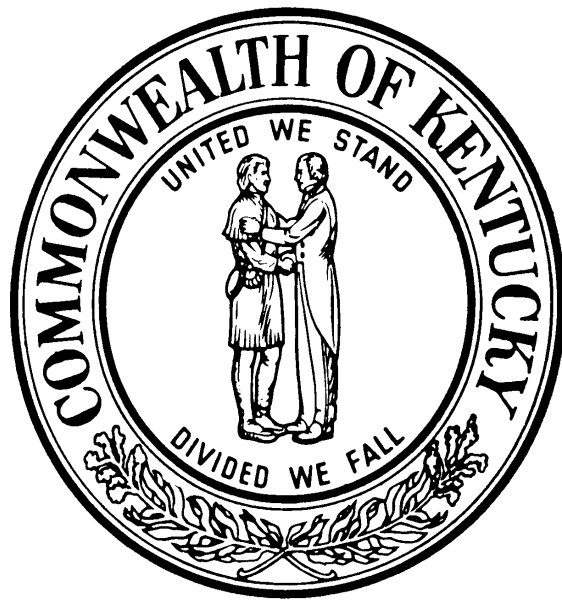
COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2010

KENTUCKY SCHOOL FACILITIES CONSTRUCTION COMMISSION

School District	Delivery Date	Principal at Issue	State Share	Interest Rates (%)
Anderson County	10/28/10	\$ 905,000	\$ 905,000	.500%-2.350%
Bardstown Independent	08/26/10	2,170,000	70,165	3.500%-5.400%
Barren County	12/14/10	1,920,000	894,528	1.000%-4.125%
Bell County	11/10/10	670,000	523,919	2.875%-3.875%
Bourbon County	10/05/10	229,000	163,059	2.250%-2.250%
Bowling Green Independent	07/14/10	510,000	497,271	3.650%-3.650%
Boyle County	09/01/10	5,395,000	1,000,460	1.000%-3.000%
Calloway County	10/14/10	6,265,000	1,151,452	.600%-2.900%
Campbell County	10/28/10	595,000	595,000	.700%-2.700%
Casey County	09/17/10	1,110,000	726,975	.500%-2.550%
Christian County	09/23/10	5,640,000	3,237,976	1.000%-2.375%
Clark County	11/24/10	5,170,000	3,085,275	.800%-5.000%
Clinton County	07/15/10	2,055,000	769,071	2.000%-6.000%
Cloverport Independent	07/08/10	885,000	525,285	1.800%-4.000%
Crittenden County	07/20/10	990,000	990,000	1.000%-4.000%
Crittenden County	09/20/10	3,865,000	900,589	.500%-2.600%
Danville Independent	09/15/10	1,130,000	1,130,000	1.000%-2.000%
Eminence Independent	10/18/10	420,000	420,000	2.250%-4.000%
Estill County	09/30/10	7,350,000	915,465	5.000%-5.000%
Estill County	11/10/10	5,630,000	1,311,555	.700%-5.000%
Floyd County	10/19/10	5,320,000	3,212,115	2.000%-3.000%
Ft. Thomas Independent	09/07/10	2,030,000	2,030,000	1.000%-5.200%
Garrard County	08/10/10	3,830,000	728,261	1.000%-3.000%
Grant County	08/12/10	8,485,000	1,961,710	.800%-5.550%
Grant County	11/03/10	2,215,000	219,258	.600%-3.100%
Green County	08/12/10	4,405,000	905,261	2.000%-3.000%
Greenup County	09/08/10	4,750,000	476,966	1.000%-2.625%
Greenup County	07/07/10	1,630,000	1,040,514	1.000%-4.000%
Harlan County	08/19/10	3,165,000	819,031	2.250%-5.450%
Kenton County	09/08/10	19,855,000	19,632	.500%-2.500%
Laurel County	10/07/10	8,720,000	2,543,286	.750%-5.000%
Larue County	07/29/10	7,395,000	1,678,853	1.500%-3.125%
Lawrence County	10/28/10	1,815,000	154,196	.700%-1.500%
Lee County	08/11/10	1,200,000	547,961	1.500%-4.000%
Letcher County	07/13/10	4,560,000	3,376,411	1.250%-6.000%
Lincoln County	09/16/10	7,415,000	2,632,067	.700%-4.900%
Madison County	09/24/10	10,295,000	915,920	.400%-2.500%
Marshall County	11/30/10	509,000	509,000	3.625%-3.625%
Martin County	11/04/10	3,300,000	3,300,000	.700%-4.850%
McCracken County	09/14/10	12,780,000	869,186	.250%-2.500%
Monroe County	08/25/10	3,155,000	528,005	1.000%-2.750%
Muhlenberg County	12/01/10	12,670,000	2,452,112	.700%-5.550%
Ohio County	09/14/10	890,000	549,476	1.100%-4.800%
Ohio County	09/30/10	1,615,000	517,757	1.000%-1.500%
Owen County	08/18/10	6,460,000	1,618,622	2.000%-2.875%
Owsley County	09/17/10	695,000	165,801	.750%-2.550%
Paris Independent	09/14/10	625,000	625,000	1.200%-3.800%
Powell County	09/13/10	4,050,000	570,121	1.500%-3.000%
Raceland-Worthington Independent	11/10/10	1,575,000	442,068	1.500%-4.000%
Simpson County	07/09/10	4,800,000	927,337	3.250%-6.250%
Todd County	08/04/10	8,435,000	352,027	.700%-5.750%
Trimble County	10/14/10	4,445,000	786,366	1.000%-3.000%
Warren County	07/26/10	4,300,000	277,362	2.000%-3.125%
Warren County	08/10/10	12,415,000	2,098,415	.800%-5.625
Webster County	09/21/10	1,020,000	771,340	1.000%-2.600%
Whitley County	11/18/10	1,850,000	437,703	5.250%-5.250%
Williamsburg Independent	11/30/10	4,985,000	835,051	1.000%-5.375%
		<u>\$ 240,563,000</u>	<u>\$ 61,707,236</u>	



COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2010

Audited financial statements may be requested at the following addresses:

Bluegrass State Skills Corporation
Capital Plaza Tower
500 Mero Street
Frankfort, Kentucky 40601

Kentucky State University
Office of Administrative Affairs
400 East Main Street
Frankfort, Kentucky 40601

Turnpike Authority of Kentucky
Room 78, Capitol Annex Building
Frankfort, Kentucky 40601

Kentucky Lottery Corporation
1011 West Main Street
Louisville, Kentucky 40202-2623

Kentucky Transportation Cabinet
501 High Street
Room 808
Frankfort, Kentucky 40622

Kentucky State Fair Board
Kentucky Fair and Exposition Center
P.O. Box 37130
Louisville, Kentucky 40233-7130

Kentucky Center for the Arts
5 Riverfront Plaza
Louisville, Kentucky 40202-2989

Kentucky Educational Television
600 Cooper Drive
Lexington, Kentucky 40502

Kentucky Economic Development Finance Authority
Capital Plaza Tower
500 Mero Street
Frankfort, Kentucky 40601

Kentucky Higher Education Assistance Authority
1050 U.S. 127 South, Suite 102
Frankfort, Kentucky 40601

Kentucky Housing Corporation
1231 Louisville Road
Frankfort, Kentucky 40601

Kentucky Higher Education Student Loan Corporation
Financial Services Department
10180 Linn Station Road, Suite C200
Louisville, KY 40223

Kentucky Retirement Systems
Perimeter Park West
1260 Louisville Road
Frankfort, Kentucky 40601

Kentucky Infrastructure Authority
1024 Capital Center Dr., Suite 340
Frankfort, Kentucky 40601

Kentucky Teachers' Retirement System
479 Versailles Road
Frankfort, Kentucky 40601

Kentucky Local Correctional Facilities Construction Authority
Suite 261 Capitol Annex
Frankfort, Kentucky 40601

University of Louisville
2301 South 3rd Street
108 Grawemeyer Hall
Louisville, Kentucky 40292

Kentucky Judicial Form Retirement System
P.O. Box 791
Frankfort, Kentucky 40602

Western Kentucky University
Vice President for Finance and Administration
1 Big Red Way
Bowling Green, Kentucky 42101-3576

Kentucky Horse Park
4089 Iron Works Parkway
Lexington, Kentucky 40511

Murray State University
322 Sparks Hall
Murray, Kentucky 42071

University of Kentucky
301 Peterson Service Building
Lexington, Kentucky 40506-0005

Eastern Kentucky University
Vice President for Business Affairs
521 Lancaster Avenue
Richmond, Kentucky 40475-3101

COMMONWEALTH OF KENTUCKY

Notes to Financial Statements

June 30, 2010

Morehead State University
Office of Accounting and Budgetary Control
207 Howell-McDowell Administration Building
Morehead, Kentucky 40351-1689

Northern Kentucky University
Office of Business Affairs
Lucas Administration Center
726 Nunn Drive
Highland Heights, Kentucky 41099-8101

Office of Public Employees Health Insurance
State Office Building, 2nd Floor
501 High Street
Frankfort, KY 40601

Kentucky Community and Technical College System
300 North Main Street
Versailles, KY 40383

Kentucky Access
Department of Insurance
215 West Main Street
Frankfort, Kentucky 40601

Kentucky River Authority
70 Wilkinson Boulevard
Frankfort, Kentucky 40601

Council on Postsecondary Education
1024 Capital Center Drive, Suite 320
Frankfort, Kentucky 40601

Office of the Petroleum Storage Tank
Environmental Assurance Fund
81 C. Michael Davenport Boulevard
Frankfort, KY 40601

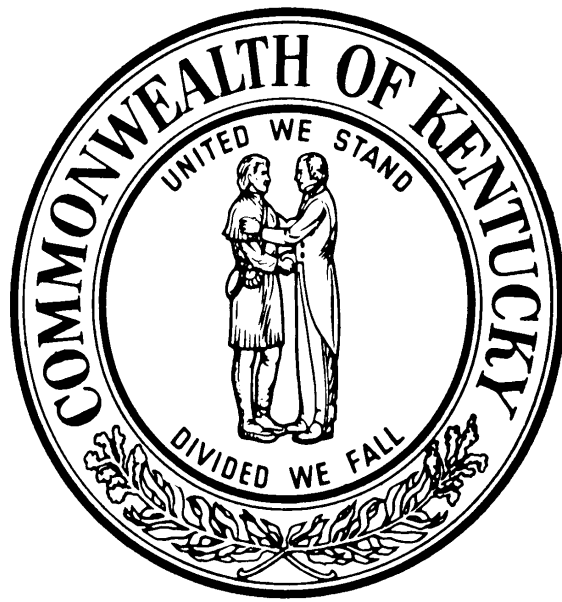
Kentucky Artisan Center at Berea
P.O. Box 280
Berea, KY 40403

Kentucky Public Employees'
Deferred Compensation Authority
101 Sea Hero Road, Suite 110
Frankfort, KY 40601-5404

Workers' Compensation Program
State Office Building, 3rd Floor
501 High Street
Frankfort, KY 40601

Kentucky Department of Labor – Special Fund
1047 US Highway 127 S, Suite 4
Frankfort, KY 40601

Kentucky Horse Park Foundation
4089 Iron Works Parkway
Lexington, Kentucky 40511



REQUIRED SUPPLEMENTARY INFORMATION OTHER THAN MANAGEMENT'S DISCUSSION AND ANALYSIS

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	Original	Final	Actual	Variance
Revenues				
Budgeted:				
Taxes	\$ 8,760,405	\$ 7,841,784	\$ 7,882,542	\$ 40,758
Licenses, fees, and permits	33,036	35,064	34,664	(400)
Intergovernmental	13,800	12,766	14,479	1,713
Charges for services	6,618	6,513	10,153	3,640
Fines and forfeits	54,400	61,654	49,322	(12,332)
Interest and other investment income	23,700		(303)	(303)
Lottery proceeds	195,000	200,000	200,000	
Other revenues	50,250	40,119	32,202	(7,917)
Tobacco Settlement	121,580	112,270	105,494	(6,776)
Subtotal of Budgeted Revenues	9,258,789	8,310,170	8,328,553	18,383
Other Budgeted Financial Resources:				
Transfers in (interfund)	131,425	163,092	169,470	6,378
Total Budgeted Revenues	9,390,214	8,473,262	8,498,023	24,761
Expenditures				
General Government:				
Executive Office of the Governor	8,666	7,841	7,459	382
Office of Homeland Security	290	231	220	11
Kentucky Infrastructure Authority	7,997	7,867	1,585	6,282
Department of Veterans Affairs	18,783	17,617	16,824	793
Office of State Budget Director	3,792	3,670	3,386	284
State Planning Fund	220			
Unified Prosecutorial System:				
Commonwealth Attorneys	33,148	36,164	36,164	
County Attorneys	28,153	31,013	31,013	
Department of Agriculture	21,769	19,165	17,794	1,371
Office of the Attorney General	13,284	11,987	11,408	579
Auditor of Public Accounts	5,660	4,991	4,749	242
Registry of Election Finance	1,382	1,277	1,217	60
Military Affairs	10,834	43,370	34,636	8,734
Governor's Office for Local Development	11,543	9,001	8,683	318
Local Government:				
Economic Assistance Fund	56,989	57,388	57,388	
Economic Development Fund	46,256	61,969	61,969	
Area Development Fund	691	621	590	31
Secretary of State	2,050	1,901	1,809	92
Secretary of Treasury	1,928	1,779	1,693	86
Board of Elections	2,848	2,867	2,837	30
School Facilities Construction Commission	111,003	110,409	102,069	8,340
Executive Branch Ethics Commission	449	456	456	
Commission on Human Rights	2,060	1,845	1,769	76
Commission on Women	238	228	216	12
Council on Postsecondary Education	59,467	53,165	49,868	3,297
Budget Reserve Trust Fund	7,125			
Personnel:				
General Operations				
State Salary Compensation Fund	29,562			
State Group Health Insurance	2,081	1,870	1,776	94

	Original	Final	Actual	Variance
Universities:				
Eastern Kentucky University	\$ 78,000	\$ 70,692	\$ 70,257	\$ 435
Kentucky State University	27,180	24,639	24,639	
Morehead State University	47,002	42,593	42,593	
Murray State University	53,460	48,414	48,414	
Northern Kentucky University	55,442	50,281	50,281	
University of Kentucky	324,367	293,887	293,887	
University of Louisville	186,788	169,896	169,896	
Western Kentucky University	83,372	75,556	74,071	1,485
Kentucky Community and Technical College System	224,430	200,555	200,555	
Finance and Administration:				
General Administration & Support	8,483	7,751	7,377	374
Special Accounts - Capital Construction	800	800	800	
Debt Service	404,968	321,896	146,634	175,262
Office of the Controller	8,078	7,337	6,923	414
Department for Facilities Management	6,295	5,833	5,555	278
Kentucky Higher Education Assistance Authority	188,060	188,060	185,276	2,784
Special Accounts - Tobacco Settlement	121,580	105,494	105,494	
Finance - County Costs	16,582	16,581	15,962	619
Department of Revenue:				
General Operations	72,473	75,587	71,590	3,997
Office of Property Valuation Administrators	35,354	36,230	36,230	
Appropriations Not Otherwise Classified:				
Judgements	3	451	433	18
Board of Claims Awards	1,000	1,200	1,157	43
Guardian Ad Litem	1,600	9,600	9,600	
Prior Year Claims	400	505	434	71
Unredeemed Checks Refunded	1,500	2,365	2,301	64
Involuntary Commitments	60	60	44	16
Blanket Employee Bonds	100	100	69	31
Frankfort In Lieu of Taxes	195	195	195	
Frankfort Cemetery	3	3	3	
Police and Firemen Life Insurance	1,000	334	248	86
Attorney General Expense	225	430	425	5
Medical Malpractice Liability Insurance Reimbursements	185	185	179	6
Total General Government	2,437,253	2,246,202	2,029,100	217,102
Legislative and Judicial:				
General Assembly	24,718	24,718	15,890	8,828
Legislative Research Commission	40,393	40,393	35,861	4,532
Judicial Retirement System	5,779	5,779	5,777	2
Court of Justice - Court Facility Use		248	11	237
Court of Justice - Operation and Administration	185,746	185,746	170,276	15,470
Court of Justice - Local Facility Support	117,712	115,832	90,238	25,594
Total Legislative and Judicial	374,348	372,716	318,053	54,663

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS) - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	Original	Final	Actual	Variance
Commerce:				
Economic Development:				
Office of the Secretary	\$ 16,140	\$ 14,841	\$ 12,835	\$ 2,006
Financial Incentives	28,135	28,134	7,104	21,030
Existing Business Development	3,421			
New Business Development	1,330	5,021	4,579	442
Commerce Cabinet: Office of the Secretary	3,357	3,056	2,869	187
Kentucky State Fair Board	181	181		181
Kentucky Horse Park	1,448	1,443	1,378	65
Department of Parks	30,242	35,355	35,085	270
Department of Travel	3,982	3,584	3,404	180
Berea Artisans Center	358	328	312	16
Total Commerce	88,594	91,943	67,566	24,377
Education:				
General Administration and Program Support	3,249	3,032	2,886	146
Commission on the Deaf and Hard of Hearing	929	853	811	42
Kentucky Heritage Council	952	833	793	40
Kentucky Arts Council	3,831	3,354	3,186	168
Department of Education:				
Support Education Excellence In KY (SEEK)	2,973,536	2,720,426	2,679,631	40,795
Executive Policy and Management	729	655	642	13
Bureau of Support Services	46,767	44,271	43,455	816
Learning Results Services	894,646	810,602	804,799	5,803
Kentucky Educational Television	13,243	13,010	12,414	596
Kentucky Historical Society	7,154	6,623	6,301	322
Kentucky Center for the Arts	1,510	1,397	950	447
Education Professional Standards Board	9,033	8,348	7,919	429
Libraries and Archives -				
Direct Local Aid	6,175	5,671	5,489	182
General Operations	6,767	6,310	6,004	306
Teachers' Retirement System	201,253	201,253	201,253	
Workforce Investment:				
Office of the Blind	1,328	1,208	1,208	
Technical Education	26,778	26,068	26,068	
Vocational Rehabilitation	12,795	11,842	11,842	
Total Education and Humanities	4,210,675	3,865,756	3,815,651	50,105
Human Resources:				
Health and Family Services:				
Administrative Services	35,410	28,816	28,612	204
Department for Community Based Services	352,193	337,377	325,393	11,984
Governor's Office of Wellness and Physical Activity				
Office of the Inspector General		6,060	6,060	
Office of Health Policy	583	418	393	25
Department for Aging and Independent Living	36,418	43,022	41,579	1,443
Department of Income Support	3,346	1,670	1,397	273
Department for Public Health	71,990	62,778	59,644	3,134
Department for Mental Health and Mental Retardation	199,096	192,174	182,872	9,302
Department for Human Support Services	434	55,866	55,573	293
Department for Medicaid Services	40,885	34,777	34,777	
Medicaid Services Benefits	1,284,706	868,309	843,190	25,119
Commission for Children With Special Health Care Needs	6,038	4,101	4,101	
Total Human Resources	2,031,099	1,635,368	1,583,591	51,777

	Original	Final	Actual	Variance
Justice:				
Office of the Secretary	\$ 11,884	\$ 11,154	\$ 11,126	\$ 28
Department of State Police	73,926	56,236	53,749	2,487
Department of Juvenile Justice	87,469	79,087	77,701	1,386
Department for Public Advocacy	35,679	38,050	38,049	1
Department of Corrections:				
Management	6,889	6,470	6,200	270
Adult Institutions	268,180	191,516	191,516	
Local Jail Allotment	15,964	15,356	14,633	723
Community Services and Local Facilities	149,410	151,539	151,539	
Total Justice	649,401	549,408	544,513	4,895
Natural Resources and Environmental Protection:				
General Administration & Support	4,220	3,986	3,544	442
Energy Development & Independence	1,754	1,644	1,512	132
Kentucky River Authority	1,079	1,055	267	788
Kentucky Nature Preserves Commission	1,181	1,120	1,067	53
Environmental Protection	23,640	23,527	21,757	1,770
Petroleum Storage Tank	1,679			
Department for Natural Resources	14,135	17,681	17,190	491
Mine Safety and Licensing	13,790	11,596	11,596	
Surface Mining Reclamation and Enforcement	9,690	8,901	8,900	1
Total Natural Resources and Environmental Protection	71,168	69,510	65,833	3,677
Public Protection and Regulation:				
General Administration & Support	301	275	275	
Board of Claims and Crime Victims Compensation	740	677	643	34
Board of Tax Appeals	440	418	398	20
Kentucky Racing Commission	444	3,107	3,107	
Public Service Commission	13,831	13,066	9,372	3,694
Mine Safety Review Commission	187	159	159	
Department of: Alcoholic Beverage Control	965	875	832	43
Housing, Buildings, and Construction	2,321	2,211	2,211	
Labor:				
Workplace Standards	2,121	1,974	1,779	195
General Administration & Support	3,628	3,360	3,022	338
Total Public Protection and Regulation	24,978	26,122	21,798	4,324
Transportation:				
Highways	442	442		442
Public Transportation	5,310	4,771	4,416	355
Total Transportation	5,752	5,213	4,416	797
Total Expenditures	9,893,268	8,862,238	8,450,521	411,717
Excess of Revenues Over (Under) Expenditures	(503,054)	(388,976)	47,502	436,478
Fund Balance at July 1		(1,518,695)	105,726	
Non-Budgeted Items			(1,200)	
Fund Balance at June 30	\$ (503,054)	\$ (1,907,671)	\$ 152,028	\$

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
Revenues				
Budgeted:				
Taxes	\$ 1,239,126	\$ 1,056,356	\$ 1,061,071	\$ 4,715
Licenses, fees, and permits	148,821	125,771	128,171	2,400
Intergovernmental			1	1
Charges for services	10,245	9,620	9,224	(396)
Fines and forfeits	3	3	22	19
Interest and other investment income	3,700	3,900	3,635	(265)
Other revenues	3,208	3,450	3,409	(41)
Total Budgeted Revenues	1,405,103	1,199,100	1,205,533	6,433
Non-Budgeted:				
Taxes				
Licenses, fees, and permits				
Intergovernmental				
Charges for services				
Fines and forfeits				
Interest and other investment income				
Other revenues				
Transfers in (interfund)			9	9
Transfers in (intrafund)				
Total Non-Budgeted Revenue			9	9
Total Revenues	1,405,103	1,199,100	1,205,542	6,442
Expenditures				
General Government:				
Executive Office of the Governor				
Office of Homeland Security	250	250	250	
Kentucky Infrastructure Authority				
Office of State Budget Director				
Executive Branch Ethics Commission				
Department of Veterans Affairs				
Unified Prosecutorial System:				
Commonwealth Attorneys				
County Attorneys				
Department of Agriculture				
Office of the Attorney General				
Auditor of Public Accounts				
Military Affairs				
Governor's Office of Agricultural Policy:				
Agricultural Development - Statewide Phase				
Governor's Office for Local Development				
Secretary of State				
Secretary of Treasury	250	250	250	
Board of:				
Accountancy				
Alcohol and Drug Counselors				
Auctioneers				
Barbering				
Chiropractic Examiners				
Professional Counselors				
Fee-Based Pastoral Counselors				
Interpreters for Deaf & Hard of Hearing				
Dentistry				
Dietitians and Nutritionists				
Elections				
Embalmers and Funeral Home Directors				
Architects				
Landscape Architects				
Examiners of Psychologists				

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$	\$	\$	\$	\$	\$	\$	\$
						308,981	
						156,126	
		8,453,128				46,765	
		930				3,033,440	
		1,153				8,365	
		327				24,637	
		102,283				313,318	
		23				626,783	
		2,023				2,159,885	
		8,559,867				6,678,300	
		8,559,867				6,678,300	
	286	286		284	681	390	291
22,952	22,952	14,586	8,366	1,113	2,171	1,419	752
50,173	51,673	50,614	1,059	1,279	1,279	910	369
				85	84		84
				46	61	34	27
				26,959	28,359	28,179	180
114	410	288	122	1,558	1,558	788	770
585	602	440	162	304	304	142	162
4,707	6,191	6,002	189	5,624	9,288	5,659	3,629
2,607	3,966	2,559	1,407	2,370	3,426	3,066	360
				4,267	5,598	5,524	74
42,183	324,182	226,512	97,670	38,086	42,085	39,697	2,388
	1,054	70		481	606	553	53
55,564	55,564	44,119	11,445	740	740	23	717
				961	961	961	
				801	925	925	
				619	619	514	105
				67	67	63	4
				428	429	315	114
				289	303	295	8
				248	248	221	27
				127	127	94	33
				3	4	2	2
				31	31	26	5
				642	764	764	
				70	70	51	19
12,241	12,241	2,491	9,750	569	569	174	395
				340	371	368	3
				383	398	341	57
				64	70	67	3
				191	191	185	6

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
	\$	\$	\$	\$
Board of: (Continued)				
Examiners of Social Workers				
Hairdressers and Cosmetologists				
Hearing Instrument Specialists				
Proprietary Education				
Nursing Home Administrators' Licensing				
Medical Licensure				
Nursing				
Ophthalmic Dispensers				
Optometric Examiners				
Art Therapists				
Occupational Therapy				
Respiratory Care Practitioners				
Marriage and Family Therapists				
Geologists				
Personnel				
Pharmacy				
Physical Therapists				
Podiatry				
Engineers and Land Surveyors				
Speech Pathology and Audiology				
Veterinary Examiners				
Ky. Board of Investigators				
Massage Therapy				
Real Estate Commission				
Real Estate Appraiser Board				
Commission on Human Rights				
Council on Postsecondary Education				
Commission on Women				
Personnel:				
General Operations				
Public Employee Deferred Compensation Authority				
Universities:				
Eastern Kentucky University				
Kentucky State University				
Morehead State University				
Murray State University				
Northern Kentucky University				
University of Kentucky				
University of Louisville				
Western Kentucky University				
Kentucky Community and Technical College System				
Finance and Administration:				
General Administration and Support	400	400	400	
Office of the Controller				
The Commonwealth Office of Technology				
Kentucky Higher Education Assistance Authority				
Finance - County Costs				
Kentucky Retirement Systems				
Department of Revenue:				
General Operations	2,325	1,923	1,917	6
Office of Property Valuation Administrators		402	402	
Department for Facilities Management				
Total General Government	<u>3,225</u>	<u>3,225</u>	<u>3,219</u>	<u>6</u>

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$	\$	\$	\$	\$	\$	\$	\$
				145	216	214	2
				1,143	1,183	1,183	
				53	53	50	3
				173	207	201	6
				47	47	46	1
				2,581	2,581	2,530	51
				5,023	5,023	4,664	359
				49	49	33	16
				170	176	176	
				11	11	8	3
				86	86	69	17
				181	184	171	13
				83	83	64	19
				135	135	83	52
				794	794	720	74
				1,088	1,328	1,324	4
				333	333	323	10
				23	23	23	
				1,411	1,411	1,171	240
				112	112	105	7
				238	238	194	44
				80	80	74	6
				91	92	84	8
				2,575	2,575	1,926	649
				623	623	583	40
284	284	208	76	2	2		2
19,100	19,099	12,263	6,836	8,929	8,929	6,570	2,359
				18	18	13	5
				21,005	21,005	19,380	1,625
				7,236	7,236	7,061	175
	5,068	5,068		232,250	232,250	50,273	181,977
	1,766	1,766		35,740	35,740	20,111	15,629
	3,053	3,053		138,683	138,683	85,641	53,042
	3,471	3,471		105,864	105,864	103,933	1,931
	3,604	3,604		175,802	175,802	157,790	18,012
	21,067	21,067		1,896,135	1,896,135	1,382,676	513,459
	12,179	12,179		726,437	726,437	215,464	510,973
	5,416	5,416		259,281	259,281	220,866	38,415
	14,377	14,377		485,472	485,472	212,403	273,069
3,990	31,641	19,728	11,913	2,844	3,894	2,535	1,359
1,000	1,375	1,350	25	7,255	7,254	6,171	1,083
400	1,800	495	1,305	305	306	169	137
1,568	2,587	2,426	161	30,219	31,018	30,162	856
				1,932	1,932	1,617	315
				26,725	26,726	23,914	2,812
				7,202	7,436	7,031	405
				3,500	3,750	3,723	27
				1,043	1,043	846	197
	263	76	187				
217,468	606,171	454,514	150,673	4,280,156	4,296,243	2,666,118	1,630,125

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
Legislative and Judicial:				
General Assembly	\$	\$	\$	\$
Legislative Research Commission				
Judicial Retirement System				
Court of Justice - Operation and Administration				
Total Legislative and Judicial				
Commerce:				
Economic Development:				
Office of the Secretary				
Financial Incentives				
Existing Business Development				
New Business Development				
Commerce: Office of the Secretary				
Department of Travel				
Berea Artisans Center	350	350	350	
Department of Fish and Wildlife Resources				
Total Commerce	350	350	350	
Education:				
Commission on the Deaf and Hard of Hearing				
Environmental Education Council				
Kentucky Heritage Council				
Kentucky Arts Council				
General Administration and Program Support				
Department of Education:				
Support Education Excellence In KY (SEEK)				
Learning Results Services				
Bureau of Support Services				
Kentucky Educational Television				
Kentucky Historical Society				
Education Professional Standards Board				
Libraries and Archives:				
Direct Local Aid				
General Operations				
Kentucky Teachers' Retirement System				
Workforce Investment:				
Office of the Blind				
Employment and Training				
Technical Education				
Vocational Rehabilitation				
Total Education and Humanities				

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$	\$	\$	\$	\$	\$	\$	\$
1	1		1	697	698		698
				1,786	1,786		1,786
					250	66	184
2,431	4,896	2,549	2,347	61,186	71,187	58,624	12,563
2,432	4,897	2,549	2,348	63,669	73,921	58,690	15,231
	4,400	11	4,389	1,211	1,425	214	1,211
				1,781	1,781	1,606	175
204	30	1	29				
	174	131	43	300	597	260	337
				10,841	14,341	9,389	4,952
				127	127	71	56
				1,796	1,796	1,704	92
13,563	17,070	14,701	2,369	31,975	32,919	32,669	250
13,767	21,674	14,844	6,830	48,031	52,986	45,913	7,073
				457	807	750	57
	100	28	72	543	543	290	253
752	899	852	47	255	1,031	583	448
705	1,427	1,263	164	216	216	117	99
190	190	145	45	6,156	6,156	4,813	1,343
	223,039	223,039					
718,019	1,046,883	940,152	106,731	2,621	3,521	89	3,432
8,528	16,028	5,178	10,850	2,210	2,210	151	2,059
700	700	288	412	1,554	3,654	1,678	1,976
	477	292	185	908	908	679	229
122	492	341	151	1,397	1,397	434	963
724	724	474	250	1,157	1,157	1,042	115
2,165	2,165	1,658	507	1,434	1,434	1,397	37
				10,851	10,851	8,702	2,149
7,899	9,670	8,219	1,451	1,531	2,637	1,654	983
116,007	195,502	161,470	34,032	2,369	4,369	416	3,953
15,154	15,154	10,947	4,207	20,526	20,526	20,203	323
42,600	51,928	45,272	6,656	2,525	3,000	2,149	851
913,565	1,565,378	1,399,618	165,760	56,710	64,417	45,147	19,270

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
Human Resources:				
Health and Family Services:				
Administrative Support	\$	\$	\$	\$
Department for Disability Determination Services				
Department for Community Based Services				
Office of Inspector General				
Office of Health Policy				
Department for Aging and Independent Living				
Department of Income Support				
Department for Public Health				
Department for Mental Health and				
Mental Retardation				
Department for Medicaid Services				
Medicaid Services Benefits				
Commission for Children with Special				
Health Care Needs				
Department for Human Support Services				
Total Human Resources				
Justice:				
Office of the Secretary				
Department of State Police	73,882	73,882	73,882	
Department for Public Advocacy				
Department of Juvenile Justice				
Department of Criminal Justice Training				
Department of Corrections:				
Management				
Adult Correctional Institutions				
Community Service and Local Facilities				
Total Justice	73,882	73,882	73,882	
Natural Resources and Environmental Protection:				
General Administration & Support				
Energy Development and Independence				
Kentucky River Authority				
Environmental Quality Commission				
Kentucky Nature Preserves Commission				
Department for Environmental Protection	300	300	300	
Department for Natural Resources				
Mining Safety and Licensing				
Surface Mining Reclamation and Enforcement				
Abandoned Mine Lands Reclamation Projects				
Total Natural Resources and				
Environmental Protection	300	300	300	
Public Protection and Regulation:				
Office of the Commissioner				
Board of Claims and Crime Victims Compensation				
Kentucky Racing Commission				
Kentucky Athletic Commission				
Public Service Commission				
Occupations and Professions				
Mine Safety Review Commission				
Department - of Alcoholic Beverage Control				
of Charitable Gaming				
of Financial Institutions				
of Housing, Buildings, and Construction				
of Insurance				
Labor: Workplace Standards				
General Administration & Support				
Total Public Protection and Regulation				

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$ 25,371	\$ 25,371	\$ 19,809	\$ 5,562	\$ 8,564	\$ 8,564	\$ 7,903	\$ 661
85,170	48,465	44,266	4,199	66	100	82	18
501,480	613,057	561,789	51,268	123,648	134,960	119,658	15,302
12,031	12,031	10,115	1,916	1,764	1,764	1,078	686
				579	821	717	104
20,497	23,981	23,933	48	2,858	3,958	2,402	1,556
	36,705	35,853	852	19,509	20,872	17,039	3,833
185,527	228,327	199,158	29,169	85,101	121,101	110,204	10,897
39,976	41,476	37,350	4,126	229,705	242,820	221,092	21,728
48,954	78,954	69,728	9,226	13,080	20,480	14,111	6,369
3,717,469	4,684,359	4,619,822	64,537	366,616	405,574	382,658	22,916
4,179	4,179	2,809	1,370	6,205	8,372	7,316	1,056
3,256	4,276	4,231	45	626	626	36	590
4,643,910	5,801,181	5,628,863	172,318	858,321	970,012	884,296	85,716
9,009	18,302	12,343	5,959	5,757	6,213	5,421	792
14,746	36,560	30,903	5,657	18,542	18,792	16,137	2,655
1,661	2,661	1,896	765	4,300	4,300	4,127	173
13,698	13,698	12,190	1,508	16,948	17,730	12,088	5,642
1,963	1,963	80	1,883	52,526	52,526	47,469	5,057
	350	346	4	135	135	135	
1,904	80,772	76,955	3,817	4,235	12,744	7,422	5,322
15	663	227	436	2,797	6,308	5,467	841
42,996	154,969	134,940	20,029	105,240	118,748	98,266	20,482
1,288	1,288	1,017	271	313	500	357	143
755	35,755	5,235	30,520	6,533	5,318	3,945	1,373
				4,065	4,065	1,887	2,178
				239	239	191	48
46	1,143	54	1,089	355	355	321	34
20,559	27,379	22,758	4,621	34,974	35,483	33,642	1,841
56,657	7,253	4,708	2,545	15,155	5,703	4,046	1,657
	651	645	6		3,702	2,247	1,455
	11,704	9,226	2,478		1,353	1,126	227
	37,049	22,415	14,634		8,370	5,038	3,332
79,305	122,222	66,058	56,164	61,634	65,088	52,800	12,288
				4,179	3,360	3,122	238
540	540	270	270	1,715	2,315	2,258	57
				27,935	30,935	23,357	7,578
				100	135	121	14
218	410	325	85	841	841	138	703
					1,009	879	130
				6	6	2	4
				4,513	4,513	4,184	329
	734	90	644	3,093	3,093	2,882	211
	3,878	2,828	1,050	9,213	9,913	8,394	1,519
3,236	3,586	3,565	21	17,293	17,293	12,854	4,439
279	279	165	114	19,519	19,519	16,417	3,102
4,273	9,427	7,243	2,184	2,127	2,577	2,161	416
				90,534	95,509	76,769	18,740

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL (BUDGETARY BASIS) - BUDGETED SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	Transportation			
	Original	Final	Actual	Variance
Transportation:				
Administration & Support	\$ 70,213	\$ 70,468	\$ 64,057	\$ 6,411
Revenue Sharing	390,633	359,661	271,053	88,608
Air Transportation	16,901	14,200	3,989	10,211
Highways	961,746	878,882	660,142	218,740
Public Transportation				
Vehicle Regulation	27,277	22,769	19,880	2,889
Debt Service	136,599	54,278	31,006	23,272
Transfers to Capital Projects	8,215	8,215	5,890	2,325
BRAC Economic Development Road Bonds				
GARVEE Louisville Bridges Project Bonds				
2005 GARVEE Bond Series				
2005 Ed Bond Series				
Total Transportation	<u>1,611,584</u>	<u>1,408,473</u>	<u>1,056,017</u>	<u>352,456</u>
Total Expenditures	<u>1,689,341</u>	<u>1,486,230</u>	<u>1,133,768</u>	<u>352,462</u>
Excess of Revenues over (under)				
Expenditures	<u>(284,238)</u>	<u>(287,130)</u>	<u>71,774</u>	<u>358,904</u>
Other Financing Sources (Uses)				
Proceeds from Trustees			1,052	1,052
Proceeds from Issuance of Notes				
Proceeds from Issuance of Bonds				
Total Other Financing Sources (Uses)	<u></u>	<u></u>	<u>1,052</u>	<u>1,052</u>
Excess of Revenues and Other Financing				
Sources over (under) Expenditures and				
Other Financing Uses	(284,238)	(287,130)	72,826	359,956
Fund Balances at July 1		(1,189,199)	284,764	
Non-Budgeted Items			(1,362)	
Fund Balances at June 30	<u>\$ (284,238)</u>	<u>\$ (1,476,329)</u>	<u>\$ 356,228</u>	<u>\$</u>

Federal				Agency Revenue			
Original	Final	Actual	Variance	Original	Final	Actual	Variance
\$	\$	\$	\$	\$ 20	\$ 20	\$ 6	\$ 14
					9,622	3,182	6,440
111	279	16	263	8,647	13,248	9,960	3,288
1,703,505	1,707,505	711,670	995,835	80,184	108,956	85,339	23,617
30,944	65,825	45,752	20,073	522	523	440	83
641	9,172	1,998	7,174	10,962	10,963	8,835	2,128
					48,866	14,720	34,146
					221,000	4,801	216,199
				117,746	117,746	48,635	69,111
				71,559	481,594	65,542	416,052
1,735,201	1,782,781	759,436	1,023,345	289,640	1,012,538	241,460	771,078
7,652,917	10,068,700	8,468,065	1,599,651	5,853,935	6,749,462	4,169,459	2,580,003
		91,802				2,508,841	
						392	
						100,000	
						250,000	
						350,392	
		91,802				2,859,233	
		117,089				1,239,665	
		(9,268)				(2,551,451)	
\$	\$	\$ 199,623	\$	\$	\$	\$ 1,547,447	\$

Budgetary Reporting

The Commonwealth of Kentucky requires that each branch of government prepare and submit a recommended budget to the General Assembly for each of the two fiscal years to be included in a biennial budget. These budgets are prepared principally on the cash basis. The General Assembly reviews these budget requests, makes any necessary revisions, and legally adopts a biennial budget for each of the three branches of government. The Governor has the power to approve or veto each bill, or to make line-item vetoes, subject to legislative override.

The financial plan for each fiscal year, as presented in a branch budget recommendation, shall be adopted with such modifications as made by the General Assembly (and explained in a budget memorandum) by the passage of the budget bill and such revenue and other acts necessary for the purpose.

Budgetary control is maintained at the budget unit level as designated by the budget bills enacted by the General Assembly (i.e., function, major program area, program, or unit of organization).

Appropriations for the General Fund and Road Fund shall be based upon revenue estimates prepared by the Consensus Forecasting Group and modifications made by the appropriations committee of the General Assembly. Official revenue estimates are not made for the other budgetary funds.

The Major Governmental funds, which have legally adopted annual budgets as part of the primary government, include the following: General, Transportation, Federal, and Agency Revenue Funds.

The funds allotted for each purpose of expenditure shall be used for no other purpose, except when the head of any budget unit, with the approval of the Secretary of the Finance and Administration Cabinet, may transfer allotted funds from one purpose of expenditure to another within the budget unit. No revisions of the allotment schedule may provide for an allotment or allotments in excess of the amount appropriated to that budget unit in a budget bill or for expenditure for any other purpose not contemplated in a budget bill. However, appropriations for budgetary funds other than the General Fund and the Transportation Fund may be amended upon approval by the State Budget Director and the Secretary of the Finance and Administration Cabinet.

Encumbrance accounting is utilized for budgetary control purposes. Encumbrances outstanding at year end for long-term construction contracts other than commitments of a continuing nature are reported as reservations of fund balance for subsequent year expenditures. All other encumbered and unencumbered appropriations lapse at the end of each fiscal year except in the Transportation Fund, which has a project length budget, except where statutory or budget bill authority expressly permits the unexpended appropriation to continue into the subsequent year. Encumbrances are carried forward as revisions to appropriations.

The annual budget is prepared principally on the cash basis, which differs from generally accepted accounting principles (GAAP). A reconciliation between the budgetary basis and the GAAP basis is presented in the notes to the Required Supplemental Information section as follows.

COMMONWEALTH OF KENTUCKY
Notes To Required Supplementary Information
June 30, 2010

Budgetary Basis vs. GAAP

Accounting principles applied for purposes of developing data on budgetary basis differ significantly from those used to present financial statements in conformity with generally accepted accounting principles. A schedule reconciling the fund balance on a cash basis at June 30, 2010, to the fund balance on a modified accrual basis follows :

(Expressed in Thousands)

Financial statement funds (same as budgetary funds)	General Fund	Transportation Fund	Federal Fund	Agency Revenue Fund
Fund balance				
June 30, 2010:				
Budgetary basis	\$ 152,028	\$ 356,228	\$ 199,623	\$ 1,547,447
Adjustments:				
Accrued revenues	270,148	118,993	605,935	79,253
Accrued expenditures	(267,682)	(65,309)	(710,123)	(34,170)
Accrued transfers (net)	(16,599)		(11,158)	11,159
Total Accruals (1)	<u>(14,133)</u>	<u>53,684</u>	<u>(115,346)</u>	<u>56,242</u>
Reclassifications and other adjustments:				
Inventory balances (1)	5,079	50,790	645	3,460
To reclassify financial and other resources into financial statement fund types (2)	(1,387)	547	(149,367)	(1,143,553)
To record financial resources available as non-budgeted funds (3)	<u>(62,000)</u>			<u>18,053</u>
Fund Balance				
Fund balance June 30, 2010:				
GAAP Basis	<u>\$ 79,587</u>	<u>\$ 461,249</u>	<u>\$ (64,445)</u>	<u>\$ 481,649</u>
(1) Basis differences				
(2) Perspective differences				
(3) Entity differences				

COMMONWEALTH OF KENTUCKY
Notes To Required Supplementary Information
June 30, 2010

Infrastructure Assets Reported Using the Modified Approach

As allowed by GASB Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments, the Commonwealth has adopted an alternative process for recording depreciation expense on selected infrastructure assets. Under this alternative method, referred to as the modified approach, the Commonwealth expenses certain maintenance and preservation costs and does not report depreciation expense. Assets accounted for, under the modified approach, include approximately 63,000 lane miles of roads and approximately 9,000 bridges that the Commonwealth is responsible to maintain.

In order to utilize the modified approach, the Commonwealth is required to:

- Maintain an asset management system that includes an up-to-date inventory of eligible infrastructure assets.
- Perform condition assessments of eligible assets and summarize the results using a measurement scale.
- Estimate, each year, the annual amount to maintain and preserve the assets at the condition level established and disclosed by the Commonwealth.
- Document that the assets are being preserved approximately at, or above, the established condition level.

Pavements

Measurement Scale

The Kentucky Transportation Cabinet (KYTC) uses numerous methods to determine the condition of roadway pavements; however, the Pavement Condition Index (PCI) serves as KYTC’s primary method to measure and monitor pavement conditions. In use since the mid-1980s, the PCI for any particular pavement section is the mathematical difference between the current pavement smoothness and the acceptable pavement smoothness threshold based on traffic volumes. The corresponding pavement condition is based on the following PCI ranges:

<u>Condition</u>	<u>PCI</u>
Good	Greater than +0.4
Fair	Between 0.0 and 0.4
Poor	Less than 0.0

Established Minimum Condition Level

No more than 30% of the pavements shall be rated as “poor.”

Assessed Conditions

The Commonwealth assesses pavement condition on a calendar year basis. The following table reports the percentage of pavements meeting ratings of “Good”, “Fair”, and “Poor” for the past five years.

<u>Condition</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Good	62.8%	60.7%	58.9%	51.9%	50.4%
Fair	19.5%	24.8%	26.1%	32.9%	35.7%
Poor	17.7%	14.5%	15.0%	15.2%	13.9%

Bridges

Measurement Scale

KYTC maintains information on its 8,933 bridges in compliance with the National Bridge Inspection guidelines established by the Federal Highway Administration. KYTC inspects all bridges at least once every two years and the condition assessment results are coded on a 0-9 scale with 9 being the most desirable. The condition ratings are based on the following scale:

<u>Rating</u>	<u>Description</u>
9	Excellent.
8	Very good.
7	Good. Some minor problems.
6	Satisfactory. Structural elements show some minor deterioration.
5	Fair. All primary structural elements are sound but may have minor section loss, cracking, spalling or scour.
4	Poor. Advanced section loss, deterioration, spalling or scour.
3	Serious. Loss of section, deterioration, spalling, or scour have seriously affected primary structural components. Local failures are possible. Fatigue cracks in steel or shear cracks in concrete may be present.
2	Critical. Advanced deterioration of primary structural elements. Fatigue cracks in steel or shear cracks in concrete may be present or scour may have removed substructure support. Unless closely monitored, it may be necessary to close the bridge until corrective action is taken.
1	Imminent failure. Major deterioration or section loss present in critical structural components or obvious vertical or horizontal movement affecting structure stability. Bridge is closed to traffic, but corrective action may put it back in light service.
0	Failure. Out of service; beyond corrective action.

Established Minimum Condition Level

No more than 10% of the bridges shall be rated as “structurally deficient.” In addition, the total deck area of structurally deficient, state maintained bridges will not exceed 12% of the total deck area of all state maintained bridges.

COMMONWEALTH OF KENTUCKY
Notes To Required Supplementary Information
June 30, 2010

Assessed Conditions

A bridge coded 4 or less for its deck, superstructure, or substructure, or coded 2 or less for its structural evaluation or waterway adequacy is classified as “structurally deficient.” A structurally deficient bridge is inadequate to carry legal loads, whether caused by structural deterioration, obsolete design standards, or an insufficient waterway opening. A bridge coded 3 or less for its structural evaluation, deck geometry, vertical or horizontal underclearance, water adequacy, or approach roadway alignment is classified as “functionally obsolete.” A functionally obsolete bridge cannot properly accommodate the current traffic. The following table reports the percentage of bridges whose condition was assessed as “structurally deficient” in the corresponding year:

Fiscal Year 2006:

Estimated	\$690.0	\$110.0	\$800.0
Actual	\$734.5	\$ 64.5	\$799.0

Fiscal Year 2005:

Estimated	\$665.0	\$100.0	\$765.0
Actual	\$542.2	\$ 89.9	\$632.1

<u>Calendar Year</u>	<u>Deck Area</u>	
	<u>Structurally Deficient</u>	<u>Structurally Deficient</u>
2009	7.4%	7.3%
2008	7.6%	8.7%
2007	6.1%	7.6%
2006	6.1%	8.2%
2005	6.2%	8.0%

Estimated and Actual Costs to Maintain

The following table presents the Commonwealth’s estimate of spending necessary to preserve and maintain the pavements, bridges, and maintenance condition at, or above, the “Established Condition Levels” cited above and the actual amount spent during the past six fiscal years (in millions):

	Roadways	Bridges	Total
<u>Fiscal Year 2011:</u>			
Estimated	\$1,016.8	\$ 126.9	\$1,143.7
<u>Fiscal Year 2010:</u>			
Estimated	\$ 809.4	\$ 103.1	\$ 912.5
Actual	\$ 806.6	\$ 97.6	\$ 904.2
<u>Fiscal Year 2009:</u>			
Estimated	\$ 929.0	\$150.0	\$1,079.0
Actual	\$ 846.4	\$ 64.1	\$ 910.5
<u>Fiscal Year 2008:</u>			
Estimated	\$ 707.8	\$181.5	\$ 889.3
Actual	\$ 840.1	\$155.0	\$ 995.1
<u>Fiscal Year 2007:</u>			
Estimated	\$ 700.0	\$120.0	\$ 820.0
Actual	\$ 817.4	\$114.1	\$ 931.5

COMMONWEALTH OF KENTUCKY
REQUIRED SUPPLEMENTARY INFORMATION
ENTITY RISK POOLS
CLAIMS DEVELOPMENT INFORMATION
FOR THE LAST TEN YEARS
(Expressed in Thousands)

State Workers' Compensation Program

	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010
Earned Premiums	\$ 13,543	\$ 13,628	\$ 17,058	\$ 18,146	\$ 22,950	\$ 24,812	\$ 23,395	\$ 24,293	\$ 21,764	\$ 23,666
Administrative Expense	533	545	777	480	385	1,149	1,127	1,070	1,094	936
Incurred Claims as Originally Estimated	19,097	19,501	21,342	20,320	20,899	19,493	18,161	16,765	21,006	19,084
Claims Paid (Cumulative) as of:										
End of Fiscal Year	3,790	3,846	3,733	3,656	4,520	4,131	4,898	4,078	4,907	4,613
One Year Later	7,216	7,320	7,449	7,225	7,233	7,862	8,716	7,585	8,252	
Two Years Later	8,987	9,260	9,330	8,596	9,347	9,632	10,947	9,316		
Three Years Later	10,252	10,414	10,627	10,008	10,424	10,873	12,259			
Four Years Later	11,254	11,236	11,432	10,921	11,209	11,609				
Five Years Later	11,945	11,990	12,182	11,842	11,798					
Six Years Later	12,886	12,717	12,883	12,644						
Seven Years Later	13,711	13,247	13,401							
Eight Years Later	14,525	13,757								
Nine Years Later	15,253									
Re-estimation of Incurred Claims:										
End of Fiscal Year	19,097	19,501	21,342	20,320	20,899	19,493	18,161	16,765	21,006	19,084
One Year Later	19,315	20,172	20,514	19,209	18,824	17,769	19,152	17,770	19,270	
Two Years Later	19,186	18,805	19,888	18,694	17,659	17,758	20,192	17,851		
Three Years Later	19,067	19,198	19,894	18,682	17,753	18,338	20,618			
Four Years Later	19,382	19,546	19,442	18,446	18,502	18,755				
Five Years Later	19,532	19,233	19,685	18,946	18,717					
Six Years Later	20,002	19,450	20,487	19,282						
Seven Years Later	20,315	20,004	20,350							
Eight Years Later	21,166	20,129								
Nine Years Later	21,502									
Increase (Decrease) in Estimated Incurred Claims From the Original Estimate Using Re-estimation at the End of the Most Recent Fiscal Year	2,405	628	(992)	(1,038)	(2,183)	(738)	2,458	1,086	(1,736)	

SOURCE: Compilation Report

Kentucky Public Employees Health Plan

	2006	2007	2008	2009	2010
Earned Premiums	\$ 578,263	\$ 1,091,702	\$ 1,191,248	\$ 1,310,553	\$ 1,466,303
Administrative Expense	28,998	57,782	68,883	72,836	77,104
Incurred Claims as Originally Estimated	467,315	1,042,931	1,164,712	1,292,059	1,391,340
Claims Paid (Cumulative) as of:					
End of Fiscal Year	398,456	970,764	1,089,989	1,264,866	1,318,824
One Year Later	473,766	1,035,700	1,173,449	1,290,727	
Two Years Later	473,046	1,043,837	1,173,366		
Three Years Later	475,709	1,043,442			
Four Years Later	475,656				
Re-estimation of Incurred Claims:					
End of Fiscal Year	467,315	1,042,931	1,164,712	1,292,059	1,391,340
One Year Later	473,872	1,035,976	1,173,890	1,289,389	
Two Years Later	473,046	1,043,923	1,173,323		
Three Years Later	475,715	1,043,442			
Four Years Later	475,656				
Increase (Decrease) in Estimated Incurred Claims From the Original Estimate Using Re-estimation at the End of the Most Recent Fiscal Year	8,341	511	8,610	(2,670)	

SOURCE: Audited Financial Statements

OTHER SUPPLEMENTARY INFORMATION

**COMBINING AND INDIVIDUAL FUND STATEMENTS AND
SCHEDULES - NON-MAJOR FUNDS**

NON-MAJOR GOVERNMENTAL FUNDS

Debt Service Fund

Turnpike Authority of Kentucky - accounts for the payment of principal, interest, and administrative fees due on debt issued to acquire infrastructure, which is then leased to the Transportation Cabinet of the Commonwealth.

The Kentucky School Facilities Construction Commission - accounts for the payment of the Commonwealth's portion of principal, interest, and administrative fees due on debt issued by local school districts for school construction.

Special Revenue Funds

The **Other Special Revenue Fund** - accounts for revenues and expenditures of restricted taxes, fees, and charges related to a particular function or activity, but not usually appropriated by the General Assembly.

The **Turnpike Authority of Kentucky** – was created to issue debt, which is used to acquire infrastructure, which is then leased to the Transportation Cabinet of the Commonwealth.

The Kentucky School Facilities Construction Commission - was established to assist local school districts in meeting the school construction needs of the Commonwealth in a manner that ensures an equitable distribution of funds based upon unmet needs.

The **Special Benefits Fund** - accounts for other fiduciary monies that will be expended for designated operations.

COMMONWEALTH OF KENTUCKY
COMBINING BALANCE SHEET
NON-MAJOR GOVERNMENTAL FUNDS
JUNE 30, 2010
(Expressed in Thousands)

	Debt Service Funds		
	Turnpike Authority of Kentucky	Kentucky School Facilities Construction Commission	Other Special Revenue
Assets			
Cash and cash equivalents	\$ 87,253	\$	\$ 46,170
Investments, net of amortization	43,535		143,016
Invested security collateral			52,648
Receivables, net	1,191		30,357
Notes receivable			322
Interfund receivables	917		726
Interfund loan receivable			68,300
Inventories			40
Total Assets	<u>\$ 132,896</u>	<u>\$</u>	<u>\$ 341,579</u>
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$	\$	\$ 9,582
Interfund payables	917		9,721
Obligations under securities lending			52,648
Deferred revenue			16,350
Total Liabilities	<u>917</u>	<u></u>	<u>88,301</u>
Fund Balances:			
Reserved for:			
Inventories			40
Long-term receivables			322
Unreserved, reported in:			
Special revenue funds			252,916
Debt service fund	131,979		
Total Fund Balances	<u>131,979</u>	<u></u>	<u>253,278</u>
Total Liabilities and Fund Balances	<u>\$ 132,896</u>	<u>\$</u>	<u>\$ 341,579</u>

Special Revenue Funds			
Turnpike Authority of Kentucky	Kentucky School Facilities Construction Commission	Special Benefits	Total Non-Major Governmental Funds
\$ 42,158	\$ 10,379	\$ 90,646	\$ 276,606
208,667	6,780	71,796	473,794
		32,941	85,589
838		5,580	37,966
			322
917		19,202	21,762
			68,300
			40
<u>\$ 252,580</u>	<u>\$ 17,159</u>	<u>\$ 220,165</u>	<u>\$ 964,379</u>
\$ 77	\$ 10	\$ 7,868	\$ 17,537
917	1,459	2,722	15,736
		32,941	85,589
125		171	16,646
<u>1,119</u>	<u>1,469</u>	<u>43,702</u>	<u>135,508</u>
			40
			322
251,461	15,690	176,463	696,530
<u>251,461</u>	<u>15,690</u>	<u>176,463</u>	<u>131,979</u>
<u>\$ 252,580</u>	<u>\$ 17,159</u>	<u>\$ 220,165</u>	<u>\$ 964,379</u>

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
NON-MAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	Debt Service Funds		
	Turnpike Authority of Kentucky	Kentucky School Facilities Construction Commission	Other Special Revenue
Revenues			
Taxes	\$	\$	\$ 120,637
Licenses, fees, and permits			727
Intergovernmental			
Charges for services			61,323
Fines and forfeits			24,110
Interest and other investment income	1,227		3,630
Increase (decrease) in fair value of investments			69
Securities lending income			271
Other revenues	2,299		34,303
Total Revenues	<u>3,526</u>	<u></u>	<u>245,070</u>
Expenditures			
Current:			
General government		44,491	126,598
Legislative and judicial			73
Commerce			243
Education and humanities			53,975
Human resources			2,140
Justice			
Natural resources and environmental protection			373
Public protection and regulation			
Transportation			1
Debt service:			
Principal retirement	260,645	69,292	
Interest and fiscal charges	51,888	32,282	
Other expenditures	902	381	
Securities lending expense			148
Total Expenditures	<u>313,435</u>	<u>146,446</u>	<u>183,551</u>
Excess (Deficiency) of Revenues over (under) Expenditures	<u>(309,909)</u>	<u>(146,446)</u>	<u>61,519</u>
Other Financing Sources (Uses)			
Transfers in	134,908	101,768	365,949
Transfers out			(417,096)
Issuance of bonds:			
New issues		44,491	
Refunding issues		28,280	
Premiums			
Discounts		(651)	
Payments to refunded bond escrow agent		(27,442)	
Total Other Financing Sources (Uses)	<u>134,908</u>	<u>146,446</u>	<u>(51,147)</u>
Net Change in Fund Balances	(175,001)		10,372
Fund Balances at July 1	306,980		242,875
Increase (Decrease) in Inventory			31
Fund Balances at June 30	<u>\$ 131,979</u>	<u>\$</u>	<u>\$ 253,278</u>

Special Revenue Funds			
Turnpike Authority of Kentucky	Kentucky School Facilities Construction Commission	Special Benefits	Total Non-Major Governmental Funds
\$	\$	\$	\$
		59	120,696
		645	1,372
		24	24
		100,952	162,275
		3,897	28,007
4,117	62	2,803	11,839
	(1)	511	579
		170	441
284	9,238	9,897	56,021
4,401	9,299	118,958	381,254
86,542	12,902	59,075	329,608
			73
		1,118	1,361
		16,782	70,757
		22,262	24,402
		1,870	1,870
		9,573	9,946
		19,668	19,668
		60,503	60,504
			329,937
			84,170
			1,283
		92	240
86,542	12,902	190,943	933,819
(82,141)	(3,603)	(71,985)	(552,565)
30,739	18,825	187,141	839,330
(134,908)	(14,434)	(142,643)	(709,081)
187,640			232,131
153,260			181,540
15,587			15,587
(1,968)			(2,619)
			(27,442)
250,350	4,391	44,498	529,446
168,209	788	(27,487)	(23,119)
83,252	14,902	203,950	851,959
\$ 251,461	\$ 15,690	\$ 176,463	\$ 828,871

SCHEDULE OF FUND ACTIVITIES

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES BY SOURCE
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed In Thousands)

Revenues by Source	June 30, 2010
Taxes:	
Sales and gross receipts	\$ 3,566,359
Income:	
Individual	3,114,270
Corporations	235,493
Property	584,354
Coal severance	318,330
Licenses and privileges	5,455
Inheritance and estate	36,211
Miscellaneous	2,415
Total Taxes	<u>7,862,887</u>
Licenses, fees, and permits	43,360
Intergovernmental	14,500
Charges for services	10,082
Fines and forfeits	49,367
Interest and other investment income	7,427
Increase (decrease) in fair value of investments	(2,454)
Securities lending income	198
Other revenues	127,920
Total Revenues by Source	<u>\$ 8,113,287</u>

COMMONWEALTH OF KENTUCKY
SCHEDULE OF EXPENDITURES BY FUNCTION, CABINET, AND OBJECT
GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed In Thousands)

	June 30, 2010
General Government:	
Personal services	\$ 240,122
Utilities, rentals, and other services	40,002
Commodities and supplies	23,359
Grants and subsidies	1,466,564
Capital outlay	32
Travel	1,857
Judgments and contingent liabilities	477
Other	2,613
Total General Government	1,775,026
Legislative and Judicial:	
Personal services	185,775
Utilities, rentals, and other services	99,819
Commodities and supplies	21,962
Grants and subsidies	6,328
Capital outlay	412
Travel	3,648
Judgments and contingent liabilities	120
Total Legislative and Judicial	318,064
Commerce:	
Personal services	12,555
Utilities, rentals, and other services	1,409
Commodities and supplies	687
Grants and subsidies	16,073
Travel	181
Total Commerce	30,905
Education and Humanities:	
Personal services	93,447
Utilities, rentals, and other services	25,168
Commodities and supplies	6,074
Grants and subsidies	3,497,868
Capital outlay	346
Travel	1,728
Total Education and Humanities	3,624,631
Human Resources:	
Personal services	194,229
Utilities, rentals, and other services	37,444
Commodities and supplies	7,891
Grants and subsidies	1,297,923
Capital Outlay	6,376
Travel	5,447
Total Human Resources	1,549,310
Justice:	
Personal services	275,445
Utilities, rentals, and other services	40,205
Commodities and supplies	24,824
Grants and subsidies	207,351
Capital outlay	3,637
Claims	7
Travel	2,456
Judgments and contingent liabilities	668
Total Justice	554,593

	June 30, 2010
Natural Resources and Environmental Protection:	
Personal services	\$ 57,442
Utilities, rentals, and other services	5,639
Commodities and supplies	2,685
Grants and subsidies	1,979
Capital outlay	51
Travel	253
Total Natural Resources and Environmental Protection	68,049
Public Protection and Regulation:	
Personal services	15,484
Utilities, rentals, and other services	1,507
Commodities and supplies	249
Grants and subsidies	200
Capital outlay	15
Travel	309
Total Public Protection and Regulation	17,764
Transportation:	
Personal services	387
Grants and subsidies	4,010
Capital outlay	2
Total Transportation	4,399
Securities Lending Expense	108
Total Expenditures	\$ 7,942,849

COMMONWEALTH OF KENTUCKY
SCHEDULE OF REVENUES AND EXPENDITURES BY TYPE
TRANSPORTATION FUND
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed In Thousands)

	June 30, 2010
Revenues:	
Taxes	\$ 1,076,592
Licenses, fees and permits	128,285
Charges for services	10,277
Fines and forfeits	22
Interest and other investment income	187
Increase (decrease) in fair value of investments	954
Securities lending income	387
Other revenues	3,491
Total Revenues	<u>1,220,195</u>
Expenditures:	
Transportation:	
General administration and support	59,012
Motor vehicle regulation	18,155
Justice - state police	73,909
Highways	927,137
Aviation	3,311
Securities lending expense	211
Other	350
Total Expenditures	<u>\$ 1,082,085</u>

INTERNAL SERVICE FUNDS

Internal Service Funds account for the financing of goods and services provided on a cost reimbursement basis by one agency of the Commonwealth to other state agencies. Kentucky uses the following Internal Service Funds:

Fleet Management Fund - accounts for expenses incurred and reimbursements received for the management and maintenance of the Commonwealth's motor vehicle fleet.

Computer Services Fund - accounts for expenses incurred and reimbursements received for computer and related data processing services.

Prison Industries Fund - accounts for expenses incurred and reimbursements received for industrial operations within the correctional system.

Central Printing Fund - accounts for expenses incurred and reimbursements received by the Division of Printing.

Property Management Fund - accounts for expenses incurred and reimbursements received for space rental and maintenance operations.

Risk Management Fund accounts for the self-insurance operations administered by the State which include the following programs:

Fire and Tornado Insurance Program - accounts for monies received by the Department of Insurance from State agencies and expended for insuring State property against loss from fires, tornadoes, etc.

State Workers' Compensation Program - accounts for monies received by the Personnel Cabinet from State agencies and expended for claims of job related injuries to State employees.

Transportation Cabinet's Self-Insured Workers' Compensation Trust Program - provides workers' compensation insurance for the employees of the Transportation Cabinet.

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF FUND NET ASSETS
INTERNAL SERVICE FUNDS
JUNE 30, 2010
(Expressed in Thousands)

	Fleet Management	Computer Services	Prison Industries
Assets			
Current assets:			
Cash and cash equivalents	\$ 10,260	\$ 8,613	\$ 655
Receivables, net	17	96	408
Interfunds receivable	93	879	278
Inventories	15	310	2,355
Prepaid expenses	12	523	
Total Current Assets	<u>10,397</u>	<u>10,421</u>	<u>3,696</u>
Noncurrent assets:			
Investments, net	6,980	12,397	425
Land			723
Improvements other than buildings			
Buildings		9,253	6,470
Machinery and equipment	71,449	37,592	4,135
Easements and other intangibles		1,675	
Less: Accumulated depreciation	(57,108)	(35,498)	(5,021)
Construction in progress			
Total Capital Assets	<u>14,341</u>	<u>13,022</u>	<u>6,307</u>
Total Noncurrent Assets, Net	<u>21,321</u>	<u>25,419</u>	<u>6,732</u>
Total Assets	<u>31,718</u>	<u>35,840</u>	<u>10,428</u>
Liabilities			
Current liabilities:			
Accounts payable	255	1,969	449
Interfund payables		1,933	
Claims liability			
Claims adjustment liability			
Capital lease obligations	3,191	995	15
Compensated absences	130	1,826	277
Deferred revenue		513	
Total Current Liabilities	<u>3,576</u>	<u>7,236</u>	<u>741</u>
Noncurrent liabilities:			
Claims liability			
Claims adjustment liability			
Capital lease obligations	272	1,518	7
Compensated absences	38	1,265	272
Total Noncurrent Liabilities	<u>310</u>	<u>2,783</u>	<u>279</u>
Total Liabilities	<u>3,886</u>	<u>10,019</u>	<u>1,020</u>
Net Assets			
Invested in capital assets, net of related debt	10,878		6,285
Unrestricted	16,954	25,821	3,123
Total Net Assets	<u>\$ 27,832</u>	<u>\$ 25,821</u>	<u>\$ 9,408</u>

Central Printing	Property Management	Risk Management	Totals June 30, 2010
\$ 106	\$ 6,315	\$ 13,637	\$ 39,586
18	149	7	528
78		42	1,459
			2,758
		4,973	5,508
202	6,464	18,659	49,839
72	10,051	9,002	38,927
	17,562		18,285
	3,133		3,133
	249,175		264,898
744	1,615		115,535
			1,675
(509)	(146,200)		(244,336)
	82,412		82,412
235	207,697		241,602
307	217,748	9,002	280,529
509	224,212	27,661	330,368
35	1,564	404	4,676
	1	1	1,935
		17,334	17,334
		797	797
165	385		4,751
70	858	117	3,278
	141		654
270	2,949	18,653	33,425
		135,245	135,245
		5,143	5,143
142	6,018		7,957
16	286	30	1,907
158	6,304	140,418	150,252
428	9,253	159,071	183,677
(72)	201,293		218,384
153	13,666	(131,410)	(71,693)
\$ 81	\$ 214,959	\$ (131,410)	\$ 146,691

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	Fleet Management	Computer Services	Prison Industries
Operating Revenues:			
Charges for services	\$ 29,523	\$ 58,822	\$ 10,911
Other revenues	194	58	7
Total Operating Revenues	29,717	58,880	10,918
Operating Expenses:			
Personal services	1,588	35,766	4,076
Utilities, rentals, and other services	2,814	11,977	737
Commodities and supplies	12,430	15,512	4,511
Grants and subsidies			7
Depreciation and amortization	6,431	3,927	381
Travel		66	27
Reinsurance expense			
Claims expense			
Claims adjustment expense			
Total Operating Expenses	23,263	67,248	9,739
Operating Income (Loss)	6,454	(8,368)	1,179
Nonoperating Revenues (Expenses):			
Gain (loss) on sale of fixed assets	345	(742)	(445)
Interest and other investment income			
Increase (decrease) in fair value of investments	(191)	(144)	(14)
Interest expense	(225)	(104)	(2)
Other revenues (expenses)			
Total Nonoperating Revenues and Expenses	(71)	(990)	(461)
Income (Loss) before Transfers	6,383	(9,358)	718
Capital contributions	234		
Transfers in	75	5,584	
Transfers out	(6,293)	(1,800)	
Change in Net Assets	399	(5,574)	718
Net Assets at July 1	27,433	31,395	8,690
Net Assets at June 30	\$ 27,832	\$ 25,821	\$ 9,408

Central Printing	Property Management	Risk Management	Totals June 30, 2010
\$ 1,822	\$ 34,394	\$ 71,025	\$ 206,497
1,822	1 34,395	71,025	260 206,757
956	16,162	2,669	61,217
446	13,999	4,347	34,320
234	3,362	28	36,077
260	5,795		7
	9	11	16,794
	1	951	113
		61,496	951
		(324)	61,497
1,896	39,328	69,178	(324)
(74)	(4,933)	1,847	210,652
			(3,895)
(14)	(909)		(1,765)
	2	(144)	(142)
(2)	(112)		(463)
(26)	(314)		(671)
		55	55
(42)	(1,333)	(89)	(2,986)
(116)	(6,266)	1,758	(6,881)
	1,085	3	234
	(1,132)	(666)	6,747
(116)	(6,313)	1,095	(9,891)
197	221,272	(132,505)	(9,791)
\$ 81	\$ 214,959	\$ (131,410)	156,482
			\$ 146,691

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF CASH FLOWS
INTERNAL SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	Fleet Management	Computer Services	Prison Industries
Cash Flows from Operating Activities			
Cash received from customers - public	\$	\$	\$
Cash received from customers - state	29,363	59,608	3,831
Cash payments to suppliers for goods and services	(15,326)	1,491	7,270
Cash payments for employee salaries and benefits	(1,577)	(25,815)	(5,965)
Cash payments for claims expense		(35,515)	(4,095)
Cash payments from other sources	194	58	7
Cash payments to other sources			(7)
Net Cash Provided (Used) by Operating Activities	12,654	(173)	1,041
Cash Flows from Noncapital Financing Activities			
Transfers from other funds	75	5,584	
Transfers to other funds	(6,293)	(1,800)	
Net Cash Provided (Used) by Noncapital Financing Activities	(6,218)	3,784	
Cash Flows from Capital and Related Financing Activities			
Acquisition and construction of capital assets	(127)	(783)	(400)
Principal paid on revenue bond maturities and equipment contracts	(3,054)	(764)	(14)
Interest paid on revenue bonds and equipment contracts	(225)	(104)	(2)
Proceeds from the sale of capital assets	345		
Net Cash Provided (Used) for Capital and Related Financing Activities	(3,061)	(1,651)	(416)
Cash Flows from Investing Activities			
Purchase of investment securities		1	(173)
Proceeds from the sale of investment securities	1,552	3,229	
Interest and dividends on investments	(191)	(144)	
Net Cash Provided (Used) in Investing Activities	1,361	3,086	(173)
Net Increase (Decrease) in Cash and Cash Equivalents	4,736	5,046	452
Cash and Cash Equivalents at July 1	5,524	3,567	203
Cash and Cash Equivalents at June 30	\$ 10,260	\$ 8,613	\$ 655
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating income (loss)	\$ 6,454	\$ (8,368)	\$ 1,179
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and amortization	6,431	3,927	381
Miscellaneous nonoperating income (expense)			
Change in assets and liabilities:			
(Increase) Decrease in assets:			
Receivables, net	119	176	33
Interfund receivables	(80)	2,023	157
Inventories	1	81	(190)
Prepaid expenses	(11)	1,159	
Increase (decrease) in liabilities:			
Accounts payable	(69)	(1,148)	(527)
Interfund payables	(3)	1,583	
Claims liability			
Claims adjustment liability			
Compensated absences	11	318	8
Deferred revenue	(199)	76	
Net Cash Provided by Operating Activities	\$ 12,654	\$ (173)	\$ 1,041
Noncash Investing, Capital, and Financing Activities			
Change in fair value of investments	\$ (191)	\$ (144)	\$ (14)
Contributions of capital assets	234		
Capital assets acquired through leases		2,657	
Total Noncash Investing, Capital, and Financing Activities	\$ 43	\$ 2,513	\$ (14)

Central Printing	Property Management	Risk Management	Totals June 30, 2010
\$	\$	\$	\$
1,896	34,967	72,637	63,439
(750)	(17,445)	(5,152)	147,624
(950)	(16,016)	(2,622)	(70,453)
	(1)	(58,898)	(60,775)
	1	56	(58,899)
		(1,149)	316
196	1,506	4,872	(1,156)
			20,096
	1,085	3	6,747
	(1,132)	(666)	(9,891)
	(47)	(663)	(3,144)
	(683)		(1,993)
(94)	(501)		(4,427)
(26)	(316)		(673)
			345
(120)	(1,500)		(6,748)
(9)			(181)
	3,051	1,926	9,758
(2)	(110)	60	(387)
(11)	2,941	1,986	9,190
65	2,900	6,195	19,394
41	3,415	7,442	20,192
\$ 106	\$ 6,315	\$ 13,637	\$ 39,586
\$ (74)	\$ (4,933)	\$ 1,847	\$ (3,895)
260	5,795		16,794
		57	57
28	20	1,664	2,040
47	560	(39)	2,668
(10)		(813)	(118)
			335
(60)	348	(155)	(1,611)
	(433)	(44)	1,103
		2,676	2,676
		(324)	(324)
		3	500
5	155		(129)
	(6)		
\$ 196	\$ 1,506	\$ 4,872	\$ 20,096
\$ (2)	\$ (112)	\$	\$ (463)
			234
68	2,592		5,317
\$ 66	\$ 2,480	\$	\$ 5,088

CAPITAL ASSETS

COMMONWEALTH OF KENTUCKY
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS BY SOURCE
JUNE 30, 2010
(Expressed In Thousands)

	June 30, 2010
Governmental Funds Capital Assets	
Land	\$ 145,840
Improvements other than buildings	12,467
Buildings	914,615
Machinery and equipment	466,310
Other intangibles	3,775
Easements	116,154
Construction in progress	2,145,084
Infrastructure	18,018,686
Total Governmental Funds Capital Assets	\$ 21,822,931
 Investments in Governmental Funds Capital Assets by Source	
General Fund	\$ 104,019
Special Revenue Funds	2,568,531
Donations	130,843
Other	65,461
Capital Projects Fund:	
State appropriations	54,409
Revenue bonds	444,739
Federal grants	159,766
Other	47,439
Infrastructure (A)	18,018,686
Capital assets acquired prior to July 1, 1984 (A)	152,682
Capital assets acquired after July 1, 1984 (A)	76,356
Total Governmental Funds Capital Assets	\$ 21,822,931

(1) Internal Service Funds are not included in this schedule. Internal Service Fund assets are included as governmental activities in the Statement of Net Assets.

(A) Capital assets with an undetermined funding source.

COMMONWEALTH OF KENTUCKY
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE BY FUNCTION
JUNE 30, 2010
(Expressed in Thousands)

FUNCTION	Improvements		
	Land	Other Than Buildings	Buildings
General Government	\$ 28,737	\$ 3,721	\$ 185,268
Legislative & Judicial	42		
Commerce	64,589	2,653	24,680
Education & Humanities	1,317	664	41,408
Human Resources	1,766	696	79,013
Justice	4,602	4,733	400,064
Natural Resources and Environmental Protection	28,030		1,128
Public Protection and Regulation			
Transportation	16,757		183,054
Total Governmental Funds Capital Assets	<u>\$ 145,840</u>	<u>\$ 12,467</u>	<u>\$ 914,615</u>

(1) Internal Service Funds are not included in this schedule. Internal Service Fund assets are included as governmental activities in the Statement of Net Assets.

<u>Machinery and Equipment</u>	<u>Software / Other Intangibles</u>	<u>Easements</u>	<u>Construction in Progress</u>	<u>Infrastructure</u>	<u>Totals June 30, 2010</u>
\$ 37,550	\$ 3,775	\$ 52,615	\$ 72,918	\$	\$ 384,584
10,940					10,982
25,709			827		118,458
41,749		11,824	1,547		98,509
19,931			7,266		108,672
85,526			95,146		590,071
34,754		10,483	307		74,702
4,115					4,115
206,036		41,232	1,967,073	18,018,686	20,432,838
<u>\$ 466,310</u>	<u>\$ 3,775</u>	<u>\$ 116,154</u>	<u>\$ 2,145,084</u>	<u>\$ 18,018,686</u>	<u>\$ 21,822,931</u>

COMMONWEALTH OF KENTUCKY
CAPITAL ASSETS USED IN THE OPERATION OF GOVERNMENTAL FUNDS
SCHEDULE OF CHANGES BY FUNCTION
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	Balance June 30, 2009	Additions	Deductions	Balance June 30, 2010
General Government	\$ 369,866	\$ 32,124	\$ 17,406	\$ 384,584
Legislative & Judicial	10,618	426	62	10,982
Commerce	114,524	9,343	5,409	118,458
Education & Humanities	96,265	4,441	2,197	98,509
Human Resources	102,085	11,640	5,053	108,672
Justice	588,540	45,032	43,501	590,071
Natural Resources and Environmental Protection	72,734	3,713	1,745	74,702
Public Protection and Regulation	3,678	727	290	4,115
Transportation	19,950,706	3,630,057	3,147,925	20,432,838
Total Governmental Funds Capital Assets	<u>\$ 21,309,016</u>	<u>\$ 3,737,503</u>	<u>\$ 3,223,588</u>	<u>\$ 21,822,931</u>

(1) Internal Service Funds are not included in this schedule. Internal Service Fund assets are included as governmental activities in the Statement of Net Assets.

PENSION AND OTHER POST EMPLOYMENT BENEFIT TRUST FUNDS

Pension and other post employment benefit trust funds account for monies received for and expenses incurred by the various public employee retirement systems administered by the Commonwealth. Kentucky uses the following Pension Trust Funds:

Kentucky Employees Retirement System (KERS) accounts for pension and other post employment benefits administered by the System, which covers substantially all regular full-time employees of any State department, board or agency directed by Executive Order to participate in the System.

County Employees Retirement System (CERS) accounts for pension and other post employment benefits administered by the System, which covers substantially all regular full-time employees of each county, local school board, and additional local agencies electing to participate in the System.

State Police Retirement System (SPRS) accounts for pension and other post employment benefits administered by the System, which covers substantially all regular full-time officers of the Kentucky State Police.

Kentucky Teachers' Retirement System (KTRS) accounts for pension and other post employment benefits administered by the System, which covers substantially all persons occupying positions in the public elementary and secondary schools for which a certificate is required, faculty members of five regional universities, the Commissioner of Education and the professional staff members of the Department of Education.

Judicial Retirement Plan accounts for pension and other post employment benefits administered by the Plan, which covers all District Judges, Judges of the Court of Appeals, and Judges of the Supreme Court.

Legislators' Retirement Plan accounts for pension and other post employment benefits administered by the Plan, which that covers all members of the General Assembly.

Kentucky Public Employees Deferred Compensation Authority accounts for the monies withheld from participating employees payroll to be placed in an Internal Revenue Code Section 401 or 457 deferred compensation plan. The amounts are deposited with third party administrators which oversee the investment activities of such monies.

COMMONWEALTH OF KENTUCKY
COMBINED STATEMENT OF FIDUCIARY NET ASSETS
PENSION AND OTHER POST EMPLOYMENT BENEFIT TRUST FUNDS
JUNE 30, 2010
(Expressed in Thousands)

	Pension Funds	Insurance Funds	Totals June 30, 2010
Assets			
Cash and Short-Term Investments:			
Cash	\$ 7,087	\$ 1,722	\$ 8,809
Medicare drug deposit		100	100
Short-term investments	726,143	782,344	1,508,487
Total Cash and Short-Term Investments	<u>733,230</u>	<u>784,166</u>	<u>1,517,396</u>
Receivables:			
Investments - accounts receivable	99,244	8,877	108,121
Interest receivable	907	253	1,160
Accounts receivable	135,616	33,582	169,198
Total Receivables	<u>235,767</u>	<u>42,712</u>	<u>278,479</u>
Investments at Fair Value:			
Corporate and government bonds	6,188,016	373,932	6,561,948
Common stocks	14,138,513	1,620,311	15,758,824
Mortgages	1,247,123		1,247,123
Mutual funds	1,834,388	614	1,835,002
Real estate	434,689		434,689
Total Investments at Fair Value	<u>23,842,729</u>	<u>1,994,857</u>	<u>25,837,586</u>
Invested security collateral	2,415,366	565,007	2,980,373
Capital assets, net	12,837		12,837
Prepaid expenses	128	147	275
Total Assets	<u>27,240,057</u>	<u>3,386,889</u>	<u>30,626,946</u>
Liabilities			
Investments - accounts payable	900		900
Accounts payable	9,571	7,801	17,372
Obligations under securities lending	2,415,366	565,007	2,980,373
Total Liabilities	<u>2,425,837</u>	<u>572,808</u>	<u>2,998,645</u>
Net assets held in trust for pension and other post employment benefits	<u>\$ 24,814,220</u>	<u>\$ 2,814,081</u>	<u>\$ 27,628,301</u>

COMMONWEALTH OF KENTUCKY
COMBINED STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION AND OTHER POST EMPLOYMENT BENEFIT TRUST FUNDS
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	Pension Funds	Insurance Funds	Totals June 30, 2010
Additions			
Contributions:			
Employer	\$ 950,163	\$ 535,726	\$ 1,485,889
Member	687,129	64,313	751,442
Total Contributions	1,637,292	600,039	2,237,331
Other Contributions:			
Recovery Income	623	29,320	29,943
Medicare D Receipts		34,407	34,407
Participant fees	6,308		6,308
Total Other Contributions	6,931	63,727	70,658
Investment Income:			
Net increase (decrease) in fair value of investments	2,597,298	282,003	2,879,301
Interest	476,356	57,748	534,104
Dividends	135,532	613	136,145
Real estate operating income, net	30,968		30,968
Securities lending income, net	10,439	1,622	12,061
Total Investment Income	3,250,593	341,986	3,592,579
Less: Investment expense	64,182	6,604	70,786
Less: Securities lending expense	3,665	377	4,042
Net Investment Income	3,182,746	335,005	3,517,751
Total Additions	4,826,969	998,771	5,825,740
Deductions			
Benefit payments	2,940,532	4,149	2,944,681
Refunds	37,586	1	37,587
Administrative expenses	41,038	9,775	50,813
Self funding insurance cost		130,142	130,142
Healthcare premium subsidies		223,352	223,352
Other deductions, net		239,923	239,923
Total Deductions	3,019,156	607,342	3,626,498
Change in Net Assets	1,807,813	391,429	2,199,242
Net Assets Held in Trust			
Net Assets at July 1	23,006,407	2,422,652	25,429,059
Net Assets at June 30	\$ 24,814,220	\$ 2,814,081	\$ 27,628,301

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PENSION AND OTHER POST EMPLOYMENT BENEFIT TRUST FUNDS - PENSION FUNDS
JUNE 30, 2010
(Expressed in Thousands)

	Kentucky Employees Retirement System		County Employees Retirement System	
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous
Assets				
Cash and Short-Term Investments:				
Cash	\$ 797	\$ 104	\$ 749	\$ 235
Short-term investments	114,677	78,396	246,699	141,692
Total Cash and Short-Term Investments	<u>115,474</u>	<u>78,500</u>	<u>247,448</u>	<u>141,927</u>
Receivables:				
Investments - accounts receivable	14,565	1,446	19,150	5,429
Interest receivable				
Accounts receivable	19,657	1,378	35,247	9,743
Total Receivables	<u>34,222</u>	<u>2,824</u>	<u>54,397</u>	<u>15,172</u>
Investments at Fair Value:				
Corporate and government bonds	942,106	93,631	1,274,561	355,572
Common stocks	2,223,543	244,184	2,948,021	908,766
Mortgages	184,890	22,010	290,020	81,924
Mutual funds				
Real estate	3,708	2,407	4,947	3,438
Total Investments at Fair Value	<u>3,354,247</u>	<u>362,232</u>	<u>4,517,549</u>	<u>1,349,700</u>
Invested security collateral	751,948	95,378	1,032,658	323,200
Capital assets, net	3,159	271	5,400	469
Prepaid expenses				
Total Assets	<u>4,259,050</u>	<u>539,205</u>	<u>5,857,452</u>	<u>1,830,468</u>
Liabilities				
Investments - accounts payable				
Accounts payable	2,602	221	4,304	374
Obligations under securities lending	751,948	95,378	1,032,658	323,200
Total Liabilities	<u>754,550</u>	<u>95,599</u>	<u>1,036,962</u>	<u>323,574</u>
Net assets held in trust for employee retirement benefits	<u>\$ 3,504,500</u>	<u>\$ 443,606</u>	<u>\$ 4,820,490</u>	<u>\$ 1,506,894</u>

State Police Retirement System	Kentucky Teachers' Retirement System	Judicial Retirement Plan	Legislators' Retirement Plan	Kentucky Public Employees' Deferred Compensation Authority	Totals June 30, 2010
\$ 150	\$ 2,545	\$ 77	\$ 144	\$ 2,286	\$ 7,087
19,635	64,964	13,721	2,084	44,275	726,143
19,785	67,509	13,798	2,228	46,561	733,230
1,045	57,550	57	2		99,244
	8	758	141		907
964	38,946			29,681	135,616
2,009	96,504	815	143	29,681	235,767
73,126	3,392,215	47,120	9,685		6,188,016
154,762	7,526,938	109,161	23,138		14,138,513
14,677	653,602				1,247,123
	299,636			1,534,752	1,834,388
575	419,614				434,689
243,140	12,292,005	156,281	32,823	1,534,752	23,842,729
56,955	155,227				2,415,366
55	3,483				12,837
	128				128
321,944	12,614,856	170,894	35,194	1,610,994	27,240,057
	900				900
40	1,124		5	901	9,571
56,955	155,227				2,415,366
56,995	157,251		5	901	2,425,837
\$ 264,949	\$ 12,457,605	\$ 170,894	\$ 35,189	\$ 1,610,093	\$ 24,814,220

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION AND OTHER POST EMPLOYMENT BENEFIT TRUST FUNDS - PENSION FUNDS
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	Kentucky Employees Retirement System		County Employees Retirement System	
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous
Additions				
Contributions:				
Employer	\$ 144,050	\$ 17,659	\$ 207,075	\$ 82,887
Member	92,579	11,228	107,903	37,374
Total Contributions	236,629	28,887	314,978	120,261
Other Contributions:				
Recovery Income				
Participant fees				
Total Other Contributions				
Investment Income:				
Net increase (decrease) in fair value of investments	449,279	57,391	567,121	175,317
Interest	90,808	9,718	118,486	35,056
Dividends				
Real estate operating income, net				
Securities lending income, net	2,931	378	4,079	1,279
Total Investment Income	543,018	67,487	689,686	211,652
Less: Investment expense	15,745	1,765	19,151	5,121
Less: Securities lending expense	1,065	134	1,462	458
Net Investment Income	526,208	65,588	669,073	206,073
Total Additions	762,837	94,475	984,051	326,334
Deductions				
Benefit payments	825,627	37,797	470,247	136,810
Refunds	8,887	1,286	10,001	1,956
Administrative expenses	8,424	737	14,323	1,234
Total Deductions	842,938	39,820	494,571	140,000
Change in Net Assets	(80,101)	54,655	489,480	186,334
Net Assets Held in Trust				
Net Assets at July 1	3,584,601	388,951	4,331,010	1,320,560
Net Assets at June 30	\$ 3,504,500	\$ 443,606	\$ 4,820,490	\$ 1,506,894

State Police Retirement System	Kentucky Teachers' Retirement System	Judicial Retirement Plan	Legislators' Retirement Plan	Kentucky Public Employees' Deferred Compensation Authority	Totals June 30, 2010
\$ 9,489	\$ 479,865	\$ 4,697	\$ 245	\$ 4,196	\$ 950,163
4,138	297,614	1,776	220	134,297	687,129
13,627	777,479	6,473	465	138,493	1,637,292
		476	147		623
		476	147	6,308	6,308
				6,308	6,931
34,874	1,168,485	17,382	3,581	123,868	2,597,298
6,602	194,116	2,933	513	18,124	476,356
	133,352	1,759	421		135,532
	30,968				30,968
223	1,549				10,439
41,699	1,528,470	22,074	4,515	141,992	3,250,593
1,016	18,206	180		2,998	64,182
80	466				3,665
40,603	1,509,798	21,894	4,515	138,994	3,182,746
54,230	2,287,277	28,843	5,127	283,795	4,826,969
45,582	1,321,890	21,440	2,782	78,357	2,940,532
144	15,310		2		37,586
130	8,830	213	47	7,100	41,038
45,856	1,346,030	21,653	2,831	85,457	3,019,156
8,374	941,247	7,190	2,296	198,338	1,807,813
256,575	11,516,358	163,704	32,893	1,411,755	23,006,407
\$ 264,949	\$ 12,457,605	\$ 170,894	\$ 35,189	\$ 1,610,093	\$ 24,814,220

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
PENSION AND OTHER POST EMPLOYMENT BENEFIT TRUST FUNDS - INSURANCE FUNDS
JUNE 30, 2010
(Expressed in Thousands)

	Kentucky Employees Retirement System		County Employees Retirement System	
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous
Assets				
Cash and Short-Term Investments:				
Cash	\$ 378	\$ 58	\$ 509	\$ 31
Medicare drug deposit	20	10	42	23
Short-term investments	39,019	61,539	268,927	153,167
Total Cash and Short-Term Investments	39,417	61,607	269,478	153,221
Receivables:				
Investments - accounts receivable	1,497	879	3,370	1,835
Interest receivable				
Accounts receivable	4,411	918	14,743	5,213
Total Receivables	5,908	1,797	18,113	7,048
Investments at Fair Value:				
Corporate and government bonds	43,244	28,288	121,051	71,248
Common stocks	281,825	179,556	687,797	355,144
Mutual funds	102	67	272	146
Total Investments at Fair Value	325,171	207,911	809,120	426,538
Invested security collateral	85,994	63,563	254,253	136,732
Prepaid expenses				
Total Assets	456,490	334,878	1,350,964	723,539
Liabilities				
Accounts payable	1,698	75	1,891	189
Obligations under securities lending	85,994	63,563	254,253	136,732
Total Liabilities	87,692	63,638	256,144	136,921
Net assets held in trust for other post employment benefits	\$ 368,798	\$ 271,240	\$ 1,094,820	\$ 586,618

<u>State Police Retirement System</u>	<u>Kentucky Teachers' Retirement System</u>	<u>Judicial Retirement Plan</u>	<u>Legislators' Retirement Plan</u>	<u>Totals June 30, 2010</u>
\$ 52	\$ 592	\$ 17	\$ 85	\$ 1,722
5				100
12,985	242,414	3,055	1,238	782,344
<u>13,042</u>	<u>243,006</u>	<u>3,072</u>	<u>1,323</u>	<u>784,166</u>
386	896	13	1	8,877
		169	84	253
371	7,926			33,582
<u>757</u>	<u>8,822</u>	<u>182</u>	<u>85</u>	<u>42,712</u>
12,796	81,056	10,493	5,756	373,932
77,931		24,308	13,750	1,620,311
27				614
<u>90,754</u>	<u>81,056</u>	<u>34,801</u>	<u>19,506</u>	<u>1,994,857</u>
24,465				565,007
	147			147
<u>129,018</u>	<u>333,031</u>	<u>38,055</u>	<u>20,914</u>	<u>3,386,889</u>
43	3,903		2	7,801
24,465				565,007
<u>24,508</u>	<u>3,903</u>		<u>2</u>	<u>572,808</u>
<u>\$ 104,510</u>	<u>\$ 329,128</u>	<u>\$ 38,055</u>	<u>\$ 20,912</u>	<u>\$ 2,814,081</u>

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
PENSION AND OTHER POST EMPLOYMENT BENEFIT TRUST FUNDS - INSURANCE FUNDS
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	Kentucky Employees Retirement System		County Employees Retirement System	
	Non-Hazardous	Hazardous	Non-Hazardous	Hazardous
Additions				
Contributions:				
Employer	\$ 93,976	\$ 21,921	\$ 166,607	\$ 83,043
Member				
Total Contributions	93,976	21,921	166,607	83,043
Other Contributions:				
Recovery Income	12,290	749	15,641	435
Medicare D Receipts	8,550	319	9,157	1,493
Total Other Contributions	20,840	1,068	24,798	1,928
Investment Income:				
Net increase (decrease) in fair value of investments	44,706	38,367	121,100	58,828
Interest	7,290	4,583	17,726	9,507
Dividends				
Securities lending income, net	242	183	733	394
Total Investment Income	52,238	43,133	139,559	68,729
Less: Investment expense	1,415	685	2,862	1,350
Less: Securities lending expense	58	42	170	91
Net Investment Income	50,765	42,406	136,527	67,288
Total Additions	165,581	65,395	327,932	152,259
Deductions				
Benefit payments				
Refunds				
Administrative expenses	4,333	200	4,469	554
Self funding insurance cost	60,876	2,236	60,044	5,288
Healthcare Premiums Subsidies	96,941	11,219	63,089	43,032
Other deductions, net				
Total Deductions	162,150	13,655	127,602	48,874
Change in Net Assets	3,431	51,740	200,330	103,385
Net Assets Held in Trust				
Net Assets at July 1	365,367	219,500	894,490	483,233
Net Assets at June 30	\$ 368,798	\$ 271,240	\$ 1,094,820	\$ 586,618

State Police Retirement System	Kentucky Teachers' Retirement System	Judicial Retirement Plan	Legislators' Retirement Plan	Totals June 30, 2010
\$ 8,369	\$ 160,728	\$ 948	\$ 134	\$ 535,726
	63,806	387	120	64,313
8,369	224,534	1,335	254	600,039
16	4	104	81	29,320
274	14,614			34,407
290	14,618	104	81	63,727
11,314	1,944	3,784	1,960	282,003
1,970	15,753	639	280	57,748
		383	230	613
70				1,622
13,354	17,697	4,806	2,470	341,986
253		39		6,604
16				377
13,085	17,697	4,767	2,470	335,005
21,744	256,849	6,206	2,805	998,771
	4,149			4,149
147		46	1	1
1,698			26	9,775
9,071				130,142
	237,377	1,973	573	223,352
10,916	241,526	2,019	600	239,923
10,828	15,323	4,187	2,205	607,342
93,682	313,805	33,868	18,707	391,429
\$ 104,510	\$ 329,128	\$ 38,055	\$ 20,912	2,422,652
				\$ 2,814,081

AGENCY FUNDS

Agency Funds account for monies held by the Commonwealth for custodial purposes only. Kentucky uses the following Agency Funds:

Commonwealth Choice Program - accounts for flexible benefits spending accounts.

County Fees Trust Fund - accounts for monies held by the Commonwealth for those counties with a population greater than 70,000.

Special Deposit Trust Fund - accounts for monies held by the Commonwealth and are marked for specific purposes such as employee withholdings.

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF FIDUCIARY NET ASSETS
AGENCY FUNDS
JUNE 30, 2010
(Expressed in Thousands)

	Commonwealth Choice Program	County Fees Trust Fund	Special Deposit Trust Fund	Totals June 30, 2010
Assets				
Cash and cash equivalents	\$ 2,179	\$ 201	\$ 227,419	\$ 229,799
Investments, net of amortization			96,492	96,492
Invested security collateral			299,764	299,764
Receivables, net		11,094	22,263	33,357
Total Assets	<u>\$ 2,179</u>	<u>\$ 11,295</u>	<u>\$ 645,938</u>	<u>\$ 659,412</u>
Liabilities				
Accounts payable	\$	\$	\$ 261,692	\$ 261,692
Amounts held in custody for others	2,179	11,295	84,482	97,956
Obligations under securities lending			299,764	299,764
Total Liabilities	<u>\$ 2,179</u>	<u>\$ 11,295</u>	<u>\$ 645,938</u>	<u>\$ 659,412</u>

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
AGENCY FUNDS
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	<u>Balances</u> <u>June 30, 2009</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balances</u> <u>June 30, 2010</u>
<u>COMMONWEALTH CHOICE PROGRAM</u>				
<u>Assets</u>				
Cash & cash equivalents	\$ 1,993	\$ 6,757	\$ 6,571	\$ 2,179
Total assets	<u>\$ 1,993</u>	<u>\$ 6,757</u>	<u>\$ 6,571</u>	<u>\$ 2,179</u>
<u>Liabilities</u>				
Amounts held in custody for others	\$ 1,993	\$ 6,757	\$ 6,571	\$ 2,179
Total liabilities	<u>\$ 1,993</u>	<u>\$ 6,757</u>	<u>\$ 6,571</u>	<u>\$ 2,179</u>
<u>COUNTY FEES TRUST FUND</u>				
<u>Assets</u>				
Cash & cash equivalents	\$ 201	\$	\$	\$ 201
Accounts Receivable	9,694	120,878	119,478	11,094
Total assets	<u>\$ 9,895</u>	<u>\$ 120,878</u>	<u>\$ 119,478</u>	<u>\$ 11,295</u>
<u>Liabilities</u>				
Amounts held in custody for others	\$ 9,895	\$ 120,878	\$ 119,478	\$ 11,295
Total liabilities	<u>\$ 9,895</u>	<u>\$ 120,878</u>	<u>\$ 119,478</u>	<u>\$ 11,295</u>
<u>SPECIAL DEPOSIT TRUST FUND</u>				
<u>Assets</u>				
Cash & cash equivalents	\$ 38,597	\$ 679,602	\$ 490,780	\$ 227,419
Investments	136,664	297	40,469	96,492
Invested security collateral	289,381	10,383		299,764
Interfund loans receivable	154,395		154,395	
Accounts receivable	9,537	12,726		22,263
Total assets	<u>\$ 628,574</u>	<u>\$ 703,008</u>	<u>\$ 685,644</u>	<u>\$ 645,938</u>
<u>Liabilities</u>				
Accounts payable	\$ 256,733	\$ 9,921	\$ 4,962	\$ 261,692
Amounts held in custody for others	82,460	5,960	3,938	84,482
Obligations under securities lending	289,381	10,383		299,764
Total liabilities	<u>\$ 628,574</u>	<u>\$ 26,264</u>	<u>\$ 8,900</u>	<u>\$ 645,938</u>
<u>ALL AGENCY FUNDS</u>				
<u>Assets</u>				
Cash & cash equivalents	\$ 40,791	\$ 686,359	\$ 497,351	\$ 229,799
Investments	136,664	297	40,469	96,492
Invested security collateral	289,381	10,383		299,764
Interfund loan receivable	154,395		154,395	
Accounts receivable	19,231	133,604	119,478	33,357
Total assets	<u>\$ 640,462</u>	<u>\$ 830,643</u>	<u>\$ 811,693</u>	<u>\$ 659,412</u>
<u>Liabilities</u>				
Accounts payable	\$ 256,733	\$ 9,921	\$ 4,962	\$ 261,692
Amounts held in custody for others	94,348	133,595	129,987	97,956
Obligations under securities lending	289,381	10,383		299,764
Total liabilities	<u>\$ 640,462</u>	<u>\$ 153,899</u>	<u>\$ 134,949</u>	<u>\$ 659,412</u>

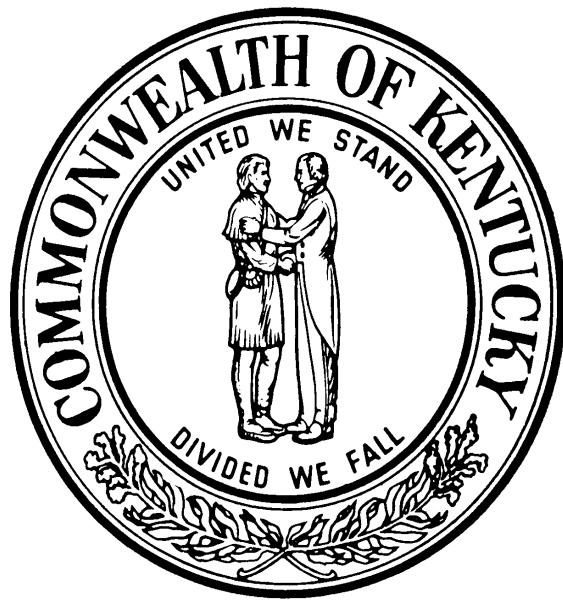
NON-MAJOR COMPONENT UNITS - COMBINING

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR COMPONENT UNITS
JUNE 30, 2010
(Expressed in Thousands)

	Non-Major Component Units - Authorities	Non-Major Component Units - Universities	Totals June 30, 2010
Assets			
Current assets:			
Cash and cash equivalents	\$ 190,779	\$ 300,044	\$ 490,823
Restricted cash	4,200	26,203	30,403
Investments, net of amortization	247,957	12,902	260,859
Accounts receivable, net	102,742	103,143	205,885
Interest receivable	2,368	2,723	5,091
Inventories	866	6,614	7,480
Prepaid expenses	893	7,338	8,231
Other current assets	13,722	8,665	22,387
Total Current Assets	563,527	467,632	1,031,159
Noncurrent assets:			
Restricted cash	5,929	51,486	57,415
Long-term investments	191,013	169,653	360,666
Restricted long-term investments	14,684	141,360	156,044
Long-term receivables, net	601,134	34,908	636,042
Deferred charges	2,821		2,821
Land	26,924	60,002	86,926
Improvements other than buildings	1,592	96,605	98,197
Buildings	431,833	1,709,021	2,140,854
Machinery and equipment	74,261	324,982	399,243
Other capital assets	21,707	83,445	105,152
Less: Accumulated depreciation and amortization	(242,553)	(960,023)	(1,202,576)
Construction in progress	28,455	167,298	195,753
Total Capital Assets	342,219	1,481,330	1,823,549
Other assets	11,528	8,825	20,353
Total Noncurrent Assets	1,169,328	1,887,562	3,056,890
Total Assets	1,732,855	2,355,194	4,088,049
Liabilities			
Current liabilities:			
Accounts payable and accruals	27,578	46,940	74,518
Current portion of long-term debt:			
Notes payable	150	5,113	5,263
Bonds payable	24,596	25,859	50,455
Capital lease obligations	1,576	6,834	8,410
Compensated absences	1,717	21,420	23,137
Claims liability	8,890	950	9,840
Deferred revenues	8,972	39,331	48,303
Payable from restricted assets		6,438	6,438
Other current liabilities	97	16,659	16,756
Total Current Liabilities	73,576	169,544	243,120
Noncurrent liabilities:			
Notes payable	3,631	22,640	26,271
Bonds payable	377,024	390,470	767,494
Capital lease obligations	23,175	64,029	87,204
Compensated absences	915	231	1,146
Other long-term liabilities	3,467	70,552	74,019
Total Noncurrent Liabilities	408,212	547,922	956,134
Total Liabilities	481,788	717,466	1,199,254
Net Assets			
Invested in capital assets, net of related debt	265,329	944,994	1,210,323
Restricted for:			
Debt service		15,859	15,859
Capital projects	16,376	59,872	76,248
Other purposes	861,027	359,248	1,220,275
Unrestricted	108,335	257,755	366,090
Total Net Assets	\$ 1,251,067	\$ 1,637,728	\$ 2,888,795

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR COMPONENT UNITS
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	Non-Major Component Units - Authorities	Non-Major Component Units - Universities	Totals June 30, 2010
Expenses:			
Operating and other expenses	\$ 569,846	\$ 1,247,712	\$ 1,817,558
Depreciation	2,725		2,725
Total expenses	572,571	1,247,712	1,820,283
Program Revenues:			
Charges for services	136,834	531,818	668,652
Operating grants and contributions	244,460	181,858	426,318
Capital grants and contributions	53,734	36,210	89,944
Total Program Revenues	435,028	749,886	1,184,914
Net Program (Expense) Revenue	(137,543)	(497,826)	(635,369)
General Revenues:			
Unrestricted grants and contributions	401	188,872	189,273
Unrestricted investment earnings	3,214	31,581	34,795
Gain on sale of capital assets	267		267
Miscellaneous general	191,954	436,839	628,793
Total General Revenues	195,836	657,292	853,128
Change in Net Assets	58,293	159,466	217,759
Net Assets at July 1, as Restated	1,192,774	1,478,262	2,671,036
Net Assets at June 30	\$ 1,251,067	\$ 1,637,728	\$ 2,888,795



NON-MAJOR COMPONENT UNITS - AUTHORITIES

Kentucky River Authority – is responsible for the maintenance of the Commonwealth’s locks and dams on the Kentucky River.

Kentucky Higher Education Assistance Authority - was established by KRS 164.742 to improve higher education opportunities by insuring eligible student loans and providing grants and scholarship awards to eligible students.

Bluegrass State Skills Corporation - established to improve and promote the employment opportunities of the citizens of the Commonwealth by assisting the Economic Development Cabinet in creating and expanding programs of skill, training and education.

Kentucky State Fair Board - accounts for the revenues earned and expenses incurred in the commercial operations of the State Fair Board.

Kentucky Center for the Arts Corporation - established by the General Assembly to promote the growth and development of the arts, convention trade, tourism and hotel industries within Jefferson County and the Commonwealth. The Center has the responsibility of maintaining, operating and insuring the Kentucky Center for the Arts building.

Kentucky Educational Television Authority - established by KRS 168.030 to produce and transmit educational television programming to the citizens of the Commonwealth.

Kentucky Economic Development Finance Authority - established in 1958 under KRS Chapter 154 to promote industrial development, and authorized to issue industrial revenue bonds that do not constitute a legal or moral obligation of the Commonwealth.

Kentucky Artisan Center - established to celebrate Kentucky’s artisan heritage and encourage Kentuckians and those traveling in Kentucky to enjoy artisan products and activities.

Kentucky Infrastructure Authority - established in 1988 by KRS 224A.030, and amended, to assume all powers, duties and obligations of the Kentucky Pollution Abatement and Water Resources Finance Authority in assisting governmental agencies within the Commonwealth in constructing and acquiring infrastructure projects.

Kentucky Agricultural Finance Corporation - created by the 1984 General Assembly to “improve and promote the health, welfare and prosperity of the people of the Commonwealth through stimulation of existing agricultural ventures.” This corporation helps banks and other financial institutions assist eligible farmers in receiving low interest loans through the issuance of tax-exempt agricultural revenue bonds.

Kentucky Grain Insurance Corporation - provides protection to grain producers in the event of the failure of a grain dealer or grain warehouseman.

Kentucky Local Correctional Facilities Construction Authority - created in 1982 pursuant to Sections 441.605 through 441.695 of the KRS to provide an additional and alternative method for constructing, improving, repairing, and financing regional and local jail facilities.

Kentucky Access - provides healthcare to Kentucky’s qualifying applicants who are at high risk.

Kentucky Horse Park Foundation, Inc. – is a legally separate tax-exempt Kentucky corporation that receives, holds, and administers gifts and grants in the name of the Kentucky Horse Park.

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR COMPONENT UNITS - AUTHORITIES
JUNE 30, 2010
(Expressed in Thousands)

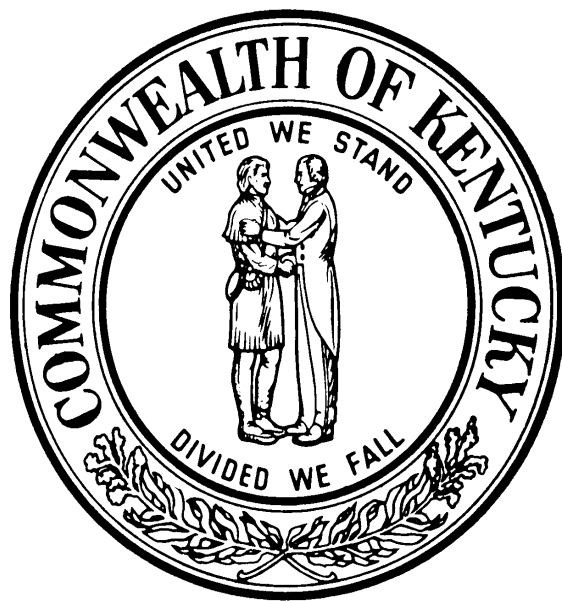
	Kentucky River Authority	Kentucky Higher Education Assistance Authority	Bluegrass State Skills Corporation	Kentucky State Fair Board	Kentucky Center for the Arts Corporation
Assets					
Current assets:					
Cash and cash equivalents	\$ 1,608	\$ 17,194	\$	\$ 7,362	\$ 3,118
Restricted cash	3,300				
Investments, net of amortization		637			5,498
Accounts receivable, net	13,643	3,068	9	2,623	241
Interest receivable	298	72			15
Inventories					24
Prepaid expenses				661	190
Other current assets		450	1,662		
Total Current Assets	18,849	21,421	1,671	10,646	9,086
Noncurrent assets:					
Restricted cash		1,515		3,608	
Long-term investments		11,685			13,761
Restricted long-term investments				931	
Long-term receivables, net		18,361			
Deferred charges		87			
Land	532			25,020	129
Improvements other than buildings				1,170	
Buildings	408	11,986		366,010	31,571
Machinery and equipment	440	5,687		5,678	22,271
Other capital assets	15,000				4,334
Less: Accumulated depreciation and amortization	(4,476)	(8,188)		(147,665)	(43,679)
Construction in progress	22,892			625	
Total Capital Assets	34,796	9,485		250,838	14,626
Other assets		10,781		747	
Total Noncurrent Assets	34,796	51,914		256,124	28,387
Total Assets	53,645	73,335	1,671	266,770	37,473
Liabilities					
Current liabilities:					
Accounts payable and accruals	821	594	1,638	2,797	1,871
Current portion of long-term debt:					
Notes payable					
Bonds payable				2,490	
Capital lease obligations	494	465		617	
Compensated absences	33	643	24		146
Claims liability					
Deferred revenues				4,623	338
Other current liabilities		(803)			
Total Current Liabilities	1,348	899	1,662	10,527	2,355
Noncurrent liabilities:					
Notes payable					
Bonds payable				46,352	
Capital lease obligations	12,933	5,265		4,977	
Compensated absences	57		32		
Other long-term liabilities					
Total Noncurrent Liabilities	12,990	5,265	32	51,329	
Total Liabilities	14,338	6,164	1,694	61,856	2,355
Net Assets					
Invested in capital assets, net of related debt	21,452	3,857		201,821	11,272
Restricted for:					
Capital projects	16,247				
Other purposes		63,314			2,296
Unrestricted	1,608		(23)	3,093	21,550
Total Net Assets	\$ 39,307	\$ 67,171	\$ (23)	\$ 204,914	\$ 35,118

Kentucky Educational Television Authority	Kentucky Economic Development Finance Authority	Kentucky Artisan Center	Kentucky Infrastructure Authority	Kentucky Agricultural Finance Corporation	Kentucky Grain Insurance Corporation
\$ 3,394	\$ 17,668 900	\$ 42	\$ 122,800	\$ 4,004	\$ 2,929
7,135			229,686		
1,408	19	3	49,840	28,469	
45	37		1,850		4
480		362			
		12			
273	11,052				
12,735	29,676	419	404,176	32,473	2,933
806					
	149	145	160,906	2,522	1,845
4,322			6,096		
81	26,792		552,782		
21			2,573		
76		1,167			
14,001		6,706			
39,036		1,001	79		
2,373					
(36,409)		(1,029)	(73)		
19,077		7,845	6		
24,307	26,941	7,990	722,363	2,522	1,845
37,042	56,617	8,409	1,126,539	34,995	4,778
881	45	60	17,059	5	
			19,936		
744	70	57			
1,410					
	900				
3,035	1,015	117	36,995	5	
			320,870		
655	86	71		14	
3,467					
4,122	86	71	320,870	14	
7,157	1,101	188	357,865	19	
19,077		7,844	6		
129					
5,749	14,196		768,668		
4,930	41,320	377		34,976	4,778
\$ 29,885	\$ 55,516	\$ 8,221	\$ 768,674	\$ 34,976	\$ 4,778

Continued

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR COMPONENT UNITS - AUTHORITIES
JUNE 30, 2010
(Expressed in Thousands)

	Kentucky Local Correctional Facilities Construction Authority	Kentucky Access	The Kentucky Horse Park Foundation, Inc.	Totals June 30, 2010
Assets				
Current assets:				
Cash and cash equivalents	\$ 3,798	\$ 5,323	\$ 1,539	\$ 190,779
Restricted cash				4,200
Investments, net of amortization		3,229	1,772	247,957
Accounts receivable, net	315	2,180	924	102,742
Interest receivable	39	8		2,368
Inventories				866
Prepaid expenses			30	893
Other current assets	285			13,722
Total Current Assets	4,437	10,740	4,265	563,527
Noncurrent assets:				
Restricted cash				5,929
Long-term investments				191,013
Restricted long-term investments	2,335		1,000	14,684
Long-term receivables, net	1,115		2,003	601,134
Deferred charges	140			2,821
Land				26,924
Improvements other than buildings			422	1,592
Buildings			1,151	431,833
Machinery and equipment			69	74,261
Other capital assets				21,707
Less: Accumulated depreciation and amortization			(1,034)	(242,553)
Construction in progress			4,938	28,455
Total Capital Assets			5,546	342,219
Other assets				11,528
Total Noncurrent Assets	3,590		8,549	1,169,328
Total Assets	8,027	10,740	12,814	1,732,855
Liabilities				
Current liabilities:				
Accounts payable and accruals	103	1,083	621	27,578
Current portion of long-term debt:				
Notes payable			150	150
Bonds payable	2,170			24,596
Capital lease obligations				1,576
Compensated absences				1,717
Claims liability		8,890		8,890
Deferred revenues		2,601		8,972
Other current liabilities				97
Total Current Liabilities	2,273	12,574	771	73,576
Noncurrent liabilities:				
Notes payable			3,631	3,631
Bonds payable	9,802			377,024
Capital lease obligations				23,175
Compensated absences				915
Other long-term liabilities				3,467
Total Noncurrent Liabilities	9,802		3,631	408,212
Total Liabilities	12,075	12,574	4,402	481,788
Net Assets				
Invested in capital assets, net of related debt				265,329
Restricted for:				
Capital projects				16,376
Other purposes			6,804	861,027
Unrestricted	(4,048)	(1,834)	1,608	108,335
Total Net Assets	\$ (4,048)	\$ (1,834)	\$ 8,412	\$ 1,251,067



COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR COMPONENT UNITS - AUTHORITIES
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	Kentucky River Authority	Kentucky Higher Education Assistance Authority	Bluegrass State Skills Corporation	Kentucky State Fair Board	Kentucky Center for the Arts Corporation
Expenses:					
Operating and other expenses	\$ 2,506	\$ 233,009	\$ 5,305	\$ 49,670	\$ 9,856
Depreciation					2,718
Total expenses	<u>2,506</u>	<u>233,009</u>	<u>5,305</u>	<u>49,670</u>	<u>12,574</u>
Program Revenues:					
Charges for services	2,447	30,877		43,160	4,757
Operating grants and contributions		200,500			1,471
Capital grants and contributions					
Total Program Revenues	<u>2,447</u>	<u>231,377</u>		<u>43,160</u>	<u>6,228</u>
Net Program (Expense) Revenue	<u>(59)</u>	<u>(1,632)</u>	<u>(5,305)</u>	<u>(6,510)</u>	<u>(6,346)</u>
General Revenues:					
Unrestricted grants and contributions					401
Unrestricted investment earnings	107			(1,690)	1,507
Gain on sale of capital assets	267				
Miscellaneous general			5,257	943	7,571
Total General Revenues	<u>374</u>		<u>5,257</u>	<u>(747)</u>	<u>9,479</u>
Change in Net Assets	<u>315</u>	<u>(1,632)</u>	<u>(48)</u>	<u>(7,257)</u>	<u>3,133</u>
Net Assets at July 1, as Restated	38,992	68,803	25	212,171	31,985
Net Assets at June 30	<u>\$ 39,307</u>	<u>\$ 67,171</u>	<u>\$ (23)</u>	<u>\$ 204,914</u>	<u>\$ 35,118</u>

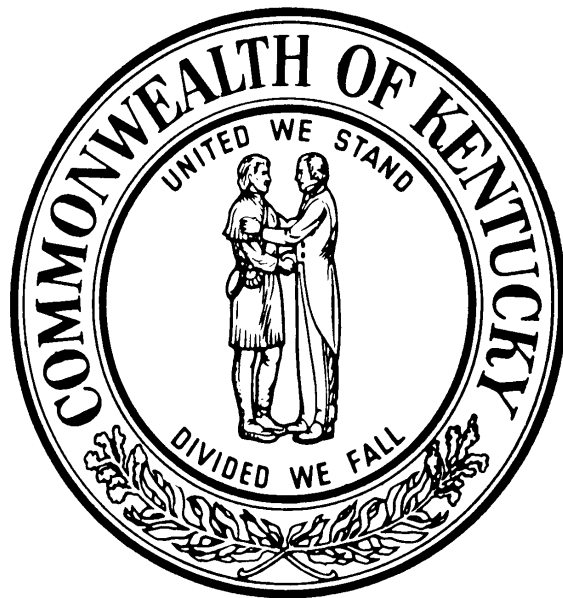
Kentucky Educational Television Authority	Kentucky Economic Development Finance Authority	Kentucky Artisan Center	Kentucky Infrastructure Authority	Kentucky Agricultural Finance Corporation	Kentucky Grain Insurance Corporation
\$ 29,699	\$ 4,763	\$ 2,501	\$ 161,321	\$ 495 7	\$ 171
29,699	4,763	2,501	161,321	502	171
2,056 9,125	1,049	1,641 662	13,081		
11,181	1,049	2,303	53,734 66,815		
(18,518)	(3,714)	(198)	(94,506)	(502)	(171)
992	(1)		1,841		50
14,590	8,510		153,502	1,581	
15,582	8,509		155,343	1,581	50
(2,936)	4,795	(198)	60,837	1,079	(121)
32,821	50,721	8,419	707,837	33,897	4,899
<u>\$ 29,885</u>	<u>\$ 55,516</u>	<u>\$ 8,221</u>	<u>\$ 768,674</u>	<u>\$ 34,976</u>	<u>\$ 4,778</u>

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR COMPONENT UNITS - AUTHORITIES
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	Kentucky Local Correctional Facilities Construction Authority	Kentucky Access	The Kentucky Horse Park Foundation, Inc.	Totals June 30, 2010
Expenses:				
Operating and other expenses	\$ 3,083	\$ 65,502	\$ 1,965	\$ 569,846
Depreciation				2,725
Total expenses	<u>3,083</u>	<u>65,502</u>	<u>1,965</u>	<u>572,571</u>
Program Revenues:				
Charges for services	4,029	31,153	2,584	136,834
Operating grants and contributions	76	32,184	442	244,460
Capital grants and contributions				53,734
Total Program Revenues	<u>4,105</u>	<u>63,337</u>	<u>3,026</u>	<u>435,028</u>
Net Program (Expense) Revenue	<u>1,022</u>	<u>(2,165)</u>	<u>1,061</u>	<u>(137,543)</u>
General Revenues:				
Unrestricted grants and contributions				401
Unrestricted investment earnings		69	339	3,214
Gain on sale of capital assets				267
Miscellaneous general				191,954
Total General Revenues	<u></u>	<u>69</u>	<u>339</u>	<u>195,836</u>
Change in Net Assets	<u>1,022</u>	<u>(2,096)</u>	<u>1,400</u>	<u>58,293</u>
Net Assets at July 1, as Restated	(5,070)	262	7,012	1,192,774
Net Assets at June 30	<u>\$ (4,048)</u>	<u>\$ (1,834)</u>	<u>\$ 8,412</u>	<u>\$ 1,251,067</u>

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF CASH FLOWS
NON-MAJOR COMPONENT UNITS-AUTHORITIES
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	Kentucky Agricultural Finance Corporation	Kentucky Grain Insurance Corporation	Totals June 30, 2010
Cash Flows from Operating Activities			
Cash payments to suppliers for goods and services	\$ (18)	\$ (3)	\$ (21)
Cash payments for employee salaries and benefits	(126)	(12)	(138)
Cash payments from other sources	(3,901)		(3,901)
Cash payments to other sources	(10)	(157)	(167)
Net Cash Provided (Used) by Operating Activities	(4,055)	(172)	(4,227)
Cash Flows from Capital and Related Financing Activities			
Acquisition and construction of capital assets	45		45
Net Cash Provided (Used) for Capital and Related Financing Activities	45		45
Cash Flows from Investing Activities			
Proceeds from the sale of investment securities	3,924	1,129	5,053
Interest and dividends on investments		47	47
Net Cash Provided (Used) in Investing Activities	3,924	1,176	5,100
Net Increase (Decrease) in Cash and Cash Equivalents	(86)	1,004	918
Cash and Cash Equivalents at July 1	4,090	1,925	6,015
Cash and Cash Equivalents at June 30	<u>\$ 4,004</u>	<u>\$ 2,929</u>	<u>\$ 6,933</u>
Reconciliation of Operating Income to Net Cash			
Provided (Used) by Operating Activities:			
Operating income (loss)	\$ 1,433	\$ (172)	\$ 1,261
Adjustments to reconcile operating income to net cash provided by operating activities:			
Depreciation and Amortization	7		7
Change in assets and liabilities:			
(Increase) Decrease in assets:			
Receivables, net	(5,483)		(5,483)
Increase (decrease) in liabilities:			
Accounts payable	(11)		(11)
Compensated absences	(1)		(1)
Net Cash Provided (Used) by Operating Activities	<u>\$ (4,055)</u>	<u>\$ (172)</u>	<u>\$ (4,227)</u>



NON-MAJOR COMPONENT UNITS - UNIVERSITIES, COLLEGES, AND RELATED ENTITIES

Universities, Colleges, and Related Entities

The Universities, Colleges, and Related Entities Funds account for all transactions relating to the State supported universities and the community colleges and technical schools. These institutions maintain their own financial records and are not part of the central accounting system operated by the Finance and Administration Cabinet. The non-major component units-universities are:

Eastern Kentucky University
Western Kentucky University
Morehead State University
Murray State University
Northern Kentucky University
Kentucky State University

Kentucky Council on Postsecondary Education—established in 1997 by the Postsecondary Education Improvement Act to coordinate changes and improvements within Kentucky’s postsecondary education system.

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF NET ASSETS
NON-MAJOR COMPONENT UNITS - UNIVERSITIES, COLLEGES, AND RELATED ENTITIES
JUNE 30, 2010
(Expressed in Thousands)

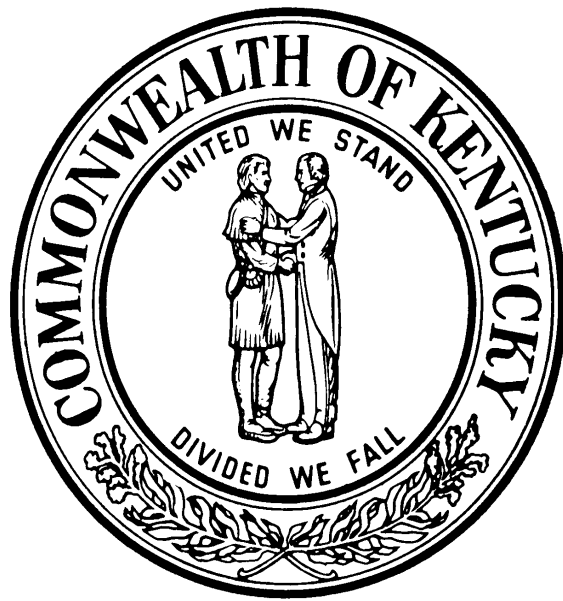
	Eastern Kentucky University	Western Kentucky University	Morehead State University
Assets			
Current assets:			
Cash and cash equivalents	\$ 40,859	\$ 97,470	\$ 32,480
Restricted cash			5,742
Investments, net of amortization	4,375	1,813	
Accounts receivable, net	22,360	13,177	14,782
Interest receivable	430	923	12
Inventories	241	2,374	1,405
Prepaid expenses	1,334	2,387	
Other current assets		5,479	422
Total Current Assets	69,599	123,623	54,843
Noncurrent assets:			
Restricted cash	1,957	16,227	
Long-term investments	39,022	99,742	29,089
Restricted long-term investments			
Long-term receivables, net	5,813	19,285	3,809
Land	7,906	11,239	18,682
Improvements other than buildings	22,052	37,278	
Buildings	263,522	492,017	219,063
Machinery and equipment	29,349	98,977	20,079
Other capital assets	40,136		29,684
Less: Accumulated depreciation and amortization	(181,899)	(214,754)	(126,027)
Construction in progress	93,807	40,212	10,702
Total Capital Assets	274,873	464,969	172,183
Other assets		6,218	817
Total Noncurrent Assets, Net	321,665	606,441	205,898
Total Assets	391,264	730,064	260,741
Liabilities			
Current liabilities:			
Accounts payable and accruals	11,265	9,348	5,472
Current portion of long-term debt:			
Notes payable		3,491	
Bonds payable	4,525	7,398	3,555
Capital lease obligations	4,346	17	505
Compensated absences	5,241	2,746	2,184
Claims liability			
Deferred revenues	8,158	15,722	4,178
Payable from restricted assets	343	553	409
Other current liabilities	582	5,883	1,090
Total Current Liabilities	34,460	45,158	17,393
Noncurrent liabilities:			
Notes payable		2,750	
Bonds payable	32,495	183,216	49,800
Capital lease obligations	40,324	3	2,886
Compensated absences			
Other long-term liabilities	427	49,062	4,611
Total Noncurrent Liabilities	73,246	235,031	57,297
Total Liabilities	107,706	280,189	74,690
Net Assets			
Invested in capital assets, net of related debt	189,676	239,627	114,660
Restricted for:			
Debt service	3,462	3,807	
Capital projects	1,581	31,744	
Other purposes	44,531	98,541	53,900
Unrestricted	44,308	76,156	17,491
Total Net Assets	\$ 283,558	\$ 449,875	\$ 186,051

Murray State University	Northern Kentucky University	Kentucky State University	Kentucky Council on Postsecondary Education	Totals June 30, 2010
\$ 45,976	\$ 59,153	\$ 24,064	\$ 42	\$ 300,044
	17,661		2,800	26,203
		6,714		12,902
7,674	29,870	6,201	9,079	103,143
1,122	231		5	2,723
2,279	253	62		6,614
1,297	1,659	287	374	7,338
2,639	91	34		8,665
60,987	108,918	37,362	12,300	467,632
28,161	5,141			51,486
	1,538		262	169,653
71,724	57,642	8,828	3,166	141,360
3,255	1,989	757		34,908
11,025	9,399	1,751		60,002
11,413	21,964	3,898		96,605
248,758	343,669	141,992		1,709,021
57,305	91,802	26,781	689	324,982
2,500		11,125		83,445
(163,830)	(167,312)	(105,802)	(399)	(960,023)
4,963	14,270	3,344		167,298
172,134	313,792	83,089	290	1,481,330
631	1,159			8,825
275,905	381,261	92,674	3,718	1,887,562
336,892	490,179	130,036	16,018	2,355,194
7,013	8,966	1,680	3,196	46,940
911	711			5,113
2,236	6,860	1,285		25,859
168	1,369	429		6,834
5,941	2,913	1,770	625	21,420
914		36		950
2,680	6,457	2,136		39,331
	5,133			6,438
2,713	45	296	6,050	16,659
22,576	32,454	7,632	9,871	169,544
14,558	5,332			22,640
41,185	79,320	4,454		390,470
982	14,861	4,973		64,029
			231	231
3,513	11,973	966		70,552
60,238	111,486	10,393	231	547,922
82,814	143,940	18,025	10,102	717,466
117,422	211,488	71,831	290	944,994
6,136	2,454			15,859
15,002	11,545			59,872
64,924	71,835	19,727	5,790	359,248
50,594	48,917	20,453	(164)	257,755
\$ 254,078	\$ 346,239	\$ 112,011	\$ 5,916	\$ 1,637,728

COMMONWEALTH OF KENTUCKY
COMBINING STATEMENT OF ACTIVITIES
NON-MAJOR COMPONENT UNITS - UNIVERSITIES, COLLEGES, AND RELATED ENTITIES
FOR THE YEAR ENDED JUNE 30, 2010
(Expressed in Thousands)

	Eastern Kentucky University	Western Kentucky University	Morehead State University
Expenses:			
Operating and other expenses	\$ 265,017	\$ 309,282	\$ 143,740
Total Expenses	265,017	309,282	143,740
Program Revenues:			
Charges for services	92,715	159,630	53,041
Operating grants and contributions	62,135	10,540	23,241
Capital grants and contributions	26,992		
Total Program Revenues	181,842	170,170	76,282
Net Program (Expense) Revenue	(83,175)	(139,112)	(67,458)
General Revenues:			
Unrestricted grants and contributions	39,826	68,543	20,954
Unrestricted investment earnings	6,708	14,247	299
Miscellaneous general	75,250	104,828	63,308
Total General Revenues	121,784	187,618	84,561
Change in Net Assets	38,609	48,506	17,103
Net Assets at July 1, as Restated	244,949	401,369	168,948
Net Assets at June 30	\$ 283,558	\$ 449,875	\$ 186,051

Murray State University	Northern Kentucky University	Kentucky State University	Kentucky Council on Postsecondary Education	Totals June 30, 2010
\$ 165,616	\$ 198,423	\$ 68,121	\$ 97,513	\$ 1,247,712
165,616	198,423	68,121	97,513	1,247,712
85,712	114,846	24,741	1,133	531,818
8,623	12,553	20,620	44,146	181,858
	8,894		324	36,210
94,335	136,293	45,361	45,603	749,886
(71,281)	(62,130)	(22,760)	(51,910)	(497,826)
27,664	24,715	7,170		188,872
8,179	982	1,159	7	31,581
48,820	68,026	26,237	50,370	436,839
84,663	93,723	34,566	50,377	657,292
13,382	31,593	11,806	(1,533)	159,466
240,696	314,646	100,205	7,449	1,478,262
\$ 254,078	\$ 346,239	\$ 112,011	\$ 5,916	\$ 1,637,728



STATISTICAL SECTION

This part of the Commonwealth of Kentucky's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the Commonwealth's overall financial health.

Financial Trends

The schedules presented, in this section, contain trend information to help the reader understand how the Commonwealth's financial performance and fiscal health has changed over time. The schedules presented from an entity wide perspective included only data from FY02 and forward, coinciding with the implementation of GASB 34. Fund perspective statements are presented for the last ten fiscal years, except where noted.

Revenue Capacity

The schedules presented, in this section, contain information to help the reader assess the Commonwealth's most significant revenue source, which is personal income tax.

Debt Capacity

The schedules presented, in this section, contain information to help the reader assess the affordability of the Commonwealth's current levels of outstanding debt, and the Commonwealth's ability to issue additional debt in the future.

Demographic Information

The schedules presented, in this section, offer demographic and economic indicators to help the reader understand the environment within the Commonwealth, and the financial impact of those activities.

Operating Information

The schedules presented, in this section, offer operating data to help the reader understand how the information in the Commonwealth's financial report relates to the services it provided and the activities performed, by the governmental agencies.

COMMONWEALTH OF KENTUCKY
FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)

	2010	2009	2008	2007
General Fund:				
Reserved	\$ 77,054	\$ 80,135	\$ 290,108	\$ 295,917
Unreserved	2,533	(49,698)	(1,937)	517,277
Total General Fund	<u>\$ 79,587</u>	<u>\$ 30,437</u>	<u>\$ 288,171</u>	<u>\$ 813,194</u>
All Other Governmental Funds:				
Reserved	\$ 892,159	\$ 882,654	\$ 919,085	\$ 704,496
Unreserved, reported in:				
Debt Service Fund	135,924	309,234	369,603	381,313
Special Revenue Funds	1,178,101	719,767	786,125	1,031,387
Capital Projects Funds	(137,256)	45,585	72,094	(66,785)
Total All Other Governmental Funds	<u>\$ 2,068,928</u>	<u>\$ 1,957,240</u>	<u>\$ 2,146,907</u>	<u>\$ 2,050,411</u>

Note: Information is presented on the modified accrual basis of accounting.
In FY 2002 funds were reclassified in conjunction with the implementation of GASB 34.

2006	2005	2004	2003	2002	2001
\$ 183,555	\$ 76,505	\$ 85,834	\$ 114,415	\$ 123,502	\$ 404,057
713,339	593,472	303,623	183,922	(36,033)	(8,870)
<u>\$ 896,894</u>	<u>\$ 669,977</u>	<u>\$ 389,457</u>	<u>\$ 298,337</u>	<u>\$ 87,469</u>	<u>\$ 395,187</u>
\$ 597,827	\$ 664,265	\$ 941,891	\$ 575,983	\$ 1,064,829	\$ 947,481
377,202	292,406	293,654	354,836	316,560	282,653
1,394,633	1,112,499	603,323	969,767	1,219,937	1,111,739
(129,103)	(120,098)	(201,248)	(36,012)	(265,510)	(300,205)
<u>\$ 2,240,559</u>	<u>\$ 1,949,072</u>	<u>\$ 1,637,620</u>	<u>\$ 1,864,574</u>	<u>\$ 2,335,816</u>	<u>\$ 2,041,668</u>

COMMONWEALTH OF KENTUCKY
CHANGES IN FUND BALANCE, GOVERNMENTAL FUNDS
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands)

	2010	2009	2008	2007
Revenues				
Taxes	\$ 9,366,175	\$ 9,560,283	\$ 9,871,590	\$ 9,668,573
Licenses, fees, and permits	330,387	323,012	309,413	303,849
Intergovernmental	8,381,546	7,055,624	6,169,116	5,810,270
Charges for services	803,961	774,553	758,805	752,532
Fines and forfeits	86,980	90,812	97,898	80,741
Interest and other investment income	45,214	67,076	149,833	163,833
Increase (decrease) in fair value of investments	(150)	(4)	6,529	11,241
Securities lending income	1,711	11,060	31,576	36,673
Other revenues	492,508	461,824	474,555	517,266
Total Revenues	19,508,332	18,344,240	17,869,315	17,344,978
Expenditures				
Current:				
General government	2,592,283	2,472,452	2,702,730	2,591,176
Legislative and judicial	378,475	359,666	338,839	303,799
Commerce	92,437	94,989	100,535	96,572
Education and humanities	5,104,048	4,860,442	4,800,460	4,554,565
Human resources	8,124,836	7,919,632	7,301,114	6,764,174
Justice	782,443	737,997	767,270	727,178
Natural resources and environmental protection	193,111	188,039	192,957	195,980
Public protection and regulation	115,857	120,406	97,482	98,517
Transportation	2,014,490	1,977,924	2,090,584	1,825,318
Debt Service:				
Principal retirement	386,212	299,940	341,733	285,809
Interest and fiscal charges	306,139	252,466	210,331	200,297
Other expenditures	27,335	25,036	21,025	15,960
Securities lending expense	933	6,080	26,774	35,318
Capital outlay:				
Buildings	609,309	442,315	582,550	583,302
Total Expenditures	20,727,908	19,757,384	19,574,384	18,277,965
Excess (Deficiency) of Revenues over (under) Expenditures	(1,219,576)	(1,413,144)	(1,705,069)	(932,987)
Other Financing Sources (Uses)				
Transfers in	1,955,274	2,157,662	2,357,766	2,216,889
Transfers from component units				
Transfers out	(1,776,171)	(1,880,360)	(2,258,283)	(2,041,824)
Transfers to component units				
Capitalized leases	10,182	4,456	3,280	7,364
Insurance proceeds	9,876			
Issuance of bonds:				
New issues	873,326	655,350	372,135	159,140
Refunding issues	347,835	508,520	100,000	105,085
Premiums	37,442	35,905	46,322	16,610
Discounts	(2,619)	(4,193)		
Proceeds from notes	89,710		750,085	520,354
Other financing sources				
Payments to refunded bond escrow agent	(186,602)	(508,320)	(100,000)	(330,193)
Total Other Financing Sources (Uses)	1,358,253	969,020	1,271,305	653,425
Net Change in Fund Balances	\$ 138,677	\$ (444,124)	\$ (433,764)	\$ (279,562)
Debt service as a percentage of noncapital expenditures	3.57%	3.02%	3.05%	2.66%

Note: Information is presented on the modified accrual basis of accounting.
In FY 2002 funds were reclassified in conjunction with the implementation of GASB 34.

2006	2005	2004	2003	2002	2001
\$ 9,465,785	\$ 8,745,358	\$ 7,933,198	\$ 7,777,612	\$ 7,474,709	\$ 7,534,101
294,575	287,045	265,699	252,123	308,209	200,239
5,662,112	5,351,830	5,150,705	5,093,078	4,821,756	4,208,631
781,105	728,998	616,638	548,226	506,924	426,173
90,118	86,771	95,745	73,691	54,169	54,297
111,894	84,006	75,980	133,532	188,385	213,523
(5,799)	9,408	(40,558)	15,614	13,548	18,577
39,918	16,831	15,549			
597,088	611,966	625,008	506,272	406,869	616,361
17,036,796	15,922,213	14,737,964	14,400,148	13,774,569	13,271,902
2,444,023	2,131,008	1,933,909	1,889,243	2,036,798	672,605
302,303	277,792	265,847	246,838	239,515	216,608
81,037	66,609	65,518	62,486	58,741	51,283
4,395,948	4,091,135	3,823,798	3,752,918	3,584,412	3,442,741
6,602,797	6,188,350	5,984,514	5,650,039	5,563,087	5,110,365
710,142	633,662	563,890	575,237	564,427	553,499
171,407	161,899	149,401	135,349	143,924	127,048
67,329	73,868	112,587	139,299	120,764	124,725
1,661,585	1,520,371	1,724,342	1,695,652	1,724,061	1,588,052
246,404	247,290	286,166	260,977	227,648	265,689
174,972	190,225	181,424	195,126	124,625	181,006
26,649	26,574	78,052	4,153	(14,727)	(36,637)
38,144	15,619	13,123			
446,855	279,953	293,761	244,419	483,145	309,011
17,369,595	15,904,355	15,476,332	14,851,736	14,856,420	12,605,995
(332,799)	17,858	(738,368)	(451,588)	(1,081,851)	665,907
2,124,893	1,791,143	1,781,871	1,926,260	1,698,673	1,268,907
(1,969,206)	(1,645,143)	(1,563,679)	(1,676,970)	(1,523,710)	942
6,079	18,905	5,359	7,592	6,414	(1,552,020)
445,350	213,750	508,991			(1,428,957)
	257,685	601,879			941
21,416	53,484	103,316			
(58)	232,760	171,260			
	(258,550)	(944,495)	(1,567)	(321,565)	(463,429)
628,474	664,034	664,502	255,315	895,328	(1,145,813)
\$ 295,675	\$ 681,892	\$ (73,866)	\$ (196,273)	\$ (186,523)	\$ (479,906)
2.65%	2.99%	3.71%	3.27%	2.38%	3.33%

COMMONWEALTH OF KENTUCKY
NET ASSETS BY COMPONENT
FOR THE LAST NINE FISCAL YEARS
(Expressed in Thousands)

	2010	2009	2008	2007
Governmental Activities:				
Invested in capital assets, net of related debt	\$ 18,418,874	\$ 19,547,435	\$ 19,911,942	\$ 17,947,656
Restricted	1,206,293	1,094,433	1,139,727	1,237,151
Unrestricted	(6,803,987)	(5,861,735)	(4,816,142)	(1,807,615)
Total Governmental Activities Net Assets	12,821,180	14,780,133	16,235,527	17,377,192
Business-type Activities:				
Invested in Capital Assets, net of related debt	341,172	330,078	290,365	267,144
Restricted	9,646	5,615	310,216	359,605
Unrestricted	(1,151,091)	(859,772)	(553,995)	(634,297)
Total Business-Type Activities Net Assets	(800,273)	(524,079)	46,586	(7,548)
Primary Government:				
Invested in capital assets, net of related debt	18,760,046	19,877,513	20,202,307	18,214,800
Restricted	1,215,939	1,100,048	1,449,943	1,596,756
Unrestricted	(7,955,078)	(6,721,507)	(5,370,137)	(2,441,912)
Total Primary Government Net Assets	\$ 12,020,907	\$ 14,256,054	\$ 16,282,113	\$ 17,369,644

NOTE: This schedule is presented on the accrual basis of accounting.

2006	2005	2004	2003	2002
\$ 17,633,886	\$ 17,188,142	\$ 17,156,329	\$ 16,368,574	\$ 15,678,028
1,376,301	1,081,388	994,827	1,189,894	1,524,926
(1,191,204)	(819,692)	(1,480,592)	(1,288,090)	(1,576,870)
17,818,983	17,449,838	16,670,564	16,270,378	15,626,084
254,623	249,728	257,794	249,023	220,996
392,318	375,488	382,173	464,354	451,761
(612,782)	(633,046)	(721,878)	(774,119)	(915,565)
34,159	(7,830)	(81,911)	(60,742)	(242,808)
17,888,509	17,437,870	17,414,123	16,617,597	15,899,024
1,768,619	1,456,876	1,377,000	1,654,248	1,976,687
(1,803,986)	(1,452,738)	(2,202,470)	(2,062,209)	(2,492,435)
\$ 17,853,142	\$ 17,442,008	\$ 16,588,653	\$ 16,209,636	\$ 15,383,276

COMMONWEALTH OF KENTUCKY
GOVERNMENT-WIDE EXPENSES, PROGRAM REVENUES, AND NET (EXPENSE)/REVENUE
FOR THE LAST NINE FISCAL YEARS
(Expressed in Thousands)

	2010	2009	2008	2007
Function/Program Revenues				
Primary Government:				
Governmental Activities:				
Charges for Services:				
General government	\$ 384,050	\$ 366,634	\$ 494,587	\$ 375,662
Legislative and judicial	20,226	28,561	15,225	14,558
Commerce	40,657	47,770	41,821	42,267
Education and humanities	55,926	50,988	68,609	85,538
Human Resources	103,025	121,752	200,913	197,556
Justice	21,641	20,611	24,096	22,189
Natural resources and environmental protection	41,123	35,959	42,511	39,412
Public protection and regulation	73,066	71,078	66,495	64,260
Transportation	230,918	238,110	16,849	215,869
Operating Grants and Contributions	7,621,275	6,575,144	5,554,089	5,261,989
Capital Grants and Contributions	773,661	550,416	750,184	658,132
Total Governmental Activities	9,365,568	8,107,023	7,275,379	6,977,432
Business-Type Activities:				
Charges for Services:				
State Parks	50,802	52,439	57,605	56,208
Kentucky Lottery Corporation	772,497	810,544	778,211	744,222
Kentucky Horse Park	6,880	6,423	6,763	6,632
Insurance Administration	121,445	93,438	129,870	130,994
Kentucky Public Employees' Health Plan	1,548,458	1,392,971	1,270,899	1,158,078
Unemployment Compensation	1,556,290	412,430	381,410	357,396
Operating Grants and Contributions	3,849	363,028	53,838	46,798
Capital Grants and Contributions		4,633	1,735	476
Total Business-Type Activities	4,060,221	3,135,906	2,680,331	2,500,804
Total Primary Government	\$ 13,425,789	\$ 11,242,929	\$ 9,955,710	\$ 9,478,236
Expenses				
Primary Government:				
Governmental Activities:				
General government	\$ 4,377,373	\$ 3,837,639	\$ 4,370,883	\$ 3,708,700
Legislative and judicial	376,743	360,872	335,635	313,010
Commerce	124,263	112,825	107,774	96,486
Education and humanities	5,148,482	4,887,919	4,852,742	4,608,914
Human Resources	7,725,161	7,611,725	6,904,568	6,468,225
Justice	876,065	822,301	845,153	803,120
Natural resources and environmental protection	192,518	197,086	197,265	191,052
Public protection and regulation	113,558	121,952	97,360	116,770
Transportation	1,175,210	1,331,764	1,170,102	1,123,493
Interest expense	332,639	265,984	254,488	266,388
Total Governmental Activities	20,442,012	19,550,067	19,135,970	17,696,158
Business-Type Activities:				
State Parks	101,861	98,795	104,672	111,973
Kentucky Lottery Corporation	568,183	619,902	599,490	563,549
Kentucky Horse Park	13,521	11,411	12,799	10,624
Insurance Administration	107,286	(18,953)	117,817	176,338
Kentucky Public Employees' Health Plan	1,497,656	1,434,951	1,288,981	1,152,794
Unemployment Compensation	1,958,414	1,317,067	493,397	450,629
Total Business-Type Activities	4,246,921	3,463,173	2,617,156	2,465,907
Total Primary Government	\$ 24,688,933	\$ 23,013,240	\$ 21,753,126	\$ 20,162,065
Net (Expense)/Revenue				
Governmental Activities	\$ (11,076,444)	\$ (11,443,044)	\$ (11,860,591)	\$ (10,718,726)
Business-Type Activities	(186,700)	(327,267)	63,175	34,897
Total Primary Government Net Expense	\$ (11,263,144)	\$ (11,770,311)	\$ (11,797,416)	\$ (10,683,829)

2006	2005	2004	2003	2002
\$ 374,655	\$ 355,890	\$ 312,007	\$ 276,792	\$ 249,343
13,667	11,314	11,111	9,755	8,752
34,390	35,002	34,689	32,247	27,918
102,783	106,059	14,185	8,789	9,298
106,238	181,921	138,487	418,444	419,916
33,185	22,790	23,011	18,631	32,730
33,205	31,094	39,311	19,961	21,547
63,341	53,629	69,194	71,829	55,609
202,569	227,700	207,151	235,700	247,265
5,139,428	4,915,115	4,528,038	4,583,434	4,366,372
597,282	520,194	524,936	547,363	646,847
6,700,743	6,460,708	5,902,120	6,222,945	6,085,597
52,751	50,655	50,925	49,368	47,640
742,312	707,260	725,252	673,485	638,728
6,010	5,791	5,896	5,840	5,379
178,305	133,380	129,084	157,109	133,749
595,435				
377,265	371,099	332,047	354,432	226,762
45,573	49,509	130,212	210,488	220,812
112	33	586	1,046	
1,997,763	1,317,727	1,374,002	1,451,768	1,273,070
\$ 8,698,506	\$ 7,778,435	\$ 7,276,122	\$ 7,674,713	\$ 7,358,667
\$ 2,714,165	\$ 2,234,111	\$ 2,322,043	\$ 1,949,067	\$ 1,917,289
305,466	282,389	268,001	247,503	243,571
103,996	81,639	128,548	80,459	88,229
4,421,812	4,092,896	3,824,742	3,752,426	3,639,130
6,259,383	5,897,619	5,630,683	5,646,075	5,576,596
794,698	702,796	564,202	616,236	611,350
207,369	164,498	150,380	136,057	114,496
68,108	68,956	111,928	139,518	50,798
1,263,891	1,191,512	1,020,786	1,062,576	1,093,070
250,622	201,564	200,315	227,926	335,499
16,389,510	14,917,980	14,221,628	13,857,843	13,670,028
90,283	92,193	92,287	88,423	97,706
558,435	552,410	554,880	515,629	475,944
9,690	9,387	11,732	8,562	6,715
70,683	101,312	77,241	83,536	156,851
507,282				
396,052	429,007	556,870	490,348	612,112
1,632,425	1,184,309	1,293,010	1,186,498	1,349,328
\$ 18,021,935	\$ 16,102,289	\$ 15,514,638	\$ 15,044,341	\$ 15,019,356
\$ (9,688,767)	\$ (8,457,272)	\$ (8,319,508)	\$ (7,634,898)	\$ (7,584,431)
365,338	133,418	80,992	265,270	(76,258)
\$ (9,323,429)	\$ (8,323,854)	\$ (8,238,516)	\$ (7,369,628)	\$ (7,660,689)

Continued

COMMONWEALTH OF KENTUCKY
GOVERNMENT-WIDE EXPENSES, PROGRAM REVENUES, AND NET (EXPENSE)/REVENUE
FOR THE LAST NINE FISCAL YEARS
(Expressed in Thousands)

	2010	2009	2008	2007
General Revenues and				
Other Changes in Net Assets				
Governmental Activities:				
Taxes:				
Sales and gross receipt	\$ 4,880,831	\$ 4,777,321	\$ 4,828,223	\$ 4,623,126
Individual income	3,125,824	3,359,471	3,512,908	2,975,875
Corporate income	235,654	278,103	397,842	961,204
Property	504,189	534,441	497,326	503,853
License and privilege	29,198	37,442	33,049	42,738
Severance	325,077	362,965	310,294	279,924
Inheritance and estate	38,058	43,237	51,423	49,574
Miscellaneous taxes	152,016	146,977	163,842	164,715
Unrestricted grants and contributions	9,365	10,263	11,923	731
Unrestricted investment earnings	9,531	(9,977)	31,335	57,070
Gain on sale of capital assets	22,682	12,730	10,123	3,288
Miscellaneous general	388,144	319,408	596,079	421,772
Transfers	172,007	264,032	126,716	169,150
Total General Revenues and Transfers	9,892,576	10,136,413	10,571,083	10,253,020
Change in Net Assets	(1,183,868)	(1,306,631)	(1,289,508)	(465,706)
Net Assets at July 1, as Restated	14,005,048	16,086,764	17,525,035	17,842,898
Net Assets at June 30	\$ 12,821,180	\$ 14,780,133	\$ 16,235,527	\$ 17,377,192
Business-Type Activities:				
Unrestricted grants and contributions	\$ 47,657	\$ (28,261)	\$ 16,531	\$ 83,846
Unrestricted investment earnings	1,844	38	59	72
Gain on sale of capital assets	35,792	48,894	18,746	8,628
Miscellaneous general	(172,007)	(264,032)	(126,716)	(169,150)
Transfers	(86,714)	(243,361)	(91,380)	(76,604)
Total General Revenues and Transfers	(273,414)	(570,628)	(28,205)	(41,707)
Change in Net Assets	(526,859)	46,549	74,791	34,159
Net Assets at July 1, as Restated	\$ (800,273)	\$ (524,079)	\$ 46,586	\$ (7,548)
Net Assets at June 30				
Change in Net Assets				
Governmental Activities	\$ (1,183,868)	\$ (1,306,631)	\$ (1,289,508)	\$ (465,706)
Business-Type Activities	(273,414)	(570,628)	(28,205)	(41,707)
Total Primary Government Changes in Net Assets	\$ (1,457,282)	\$ (1,877,259)	\$ (1,317,713)	\$ (507,413)

NOTE: This schedule is presented on the accrual basis of accounting.

2006	2005	2004	2003	2002
\$ 4,433,893	\$ 4,031,452	\$ 3,780,204	\$ 3,653,535	\$ 3,343,082
2,863,269	3,060,274	2,790,732	2,764,133	2,564,182
1,013,768	476,524	311,284	290,403	607,213
492,532	479,815	462,062	439,129	450,134
73,679	142,962	142,048	162,929	92,953
290,203	237,512	194,369	176,300	158,354
40,498	66,766	66,287	93,553	94,609
161,663	180,045	152,921	149,089	147,126
723	1,836	69,037	68,721	2
58,428	31,858	24,368	10,184	49,259
4,637			(73,096)	(3,768)
499,657	456,736	468,056	392,330	344,484
187,101	141,338	201,712	231,828	184,084
10,120,051	9,307,118	8,663,080	8,359,038	8,031,714
431,284	849,846	343,572	724,140	447,283
17,387,699	16,599,992	16,326,992	15,546,140	15,178,801
\$ 17,818,983	\$ 17,449,838	\$ 16,670,564	\$ 16,270,280	\$ 15,626,084
\$ 26,793	\$ 36,782	\$ 20	\$ (5,015)	\$ (370)
30	61	21,259	19,251	7,178
25,900	47,820	75	437	
(187,101)	(141,338)	66,689	(1,987)	
(134,378)	(56,675)	(201,712)	(231,828)	(184,084)
230,960	76,743	(113,669)	(219,142)	(177,276)
(196,801)	(84,573)	(32,677)	46,128	(253,534)
\$ 34,159	\$ (7,830)	\$ (49,234)	\$ (106,870)	\$ 10,726
		\$ (81,911)	\$ (60,742)	\$ (242,808)
\$ 431,284	\$ 849,846	\$ 343,572	\$ 724,140	\$ 447,283
230,960	76,743	(32,677)	46,128	(253,534)
\$ 662,244	\$ 926,589	\$ 310,895	\$ 770,268	\$ 193,749

COMMONWEALTH OF KENTUCKY
PERSONAL INCOME TAX INFORMATION
CALENDAR YEARS 2000 and 2008

Personal Income Tax Filers and Liability by Income Level (C)

KY Federal AGI (from KY form 740) Income Level	Calendar Year 2008			
	Number of Filers	Percentage of Total	Personal Income Tax Liability	Percentage of Total
Resident Taxpayer				
less than \$25,001	761,355	43.92%	\$ 232,408,458	7.35%
\$25,001-\$50,000	424,732	24.50%	540,503,162	17.10%
\$50,001-\$100,000	387,313	22.34%	1,004,755,017	31.79%
\$100,001-\$200,000	128,450	7.41%	678,208,736	21.46%
\$200,001-\$500,000	25,578	1.48%	349,569,002	11.06%
Greater than \$500,000	5,934	0.34%	355,036,647	11.23%
Total Resident	1,733,362	100.00%	3,160,481,022	100.00%
Non-Resident Taxpayer				
less than \$25,001	47,981	36.07%	12,042,116	7.09%
\$25,001-\$50,000	23,333	17.54%	12,151,840	7.16%
\$50,001-\$100,000	25,424	19.11%	22,361,246	13.17%
\$100,001-\$200,000	16,045	12.06%	23,895,478	14.07%
\$200,001-\$500,000	9,737	7.32%	21,738,606	12.80%
Greater than \$500,000	10,501	7.89%	77,647,244	45.72%
Total Non-Resident	133,021	100.00%	169,836,530	100.00%
Totals	1,866,383		\$ 3,330,317,552	

Personal Income Tax Rates

Tax Years 2000 - 2008

Tax Rate	2%	3%	4%	5%	6.0%
Income Bracket	\$0-3,000	\$3,001-4,000	\$4,001-5,000	\$5,001-8,000	\$8,001 and UP
	2008		2000		
Personal Income Tax Revenue	\$ 3,330,317,552	(A)	\$ 2,618,135,253		
Personal Income	101,288,250	(B)	68,851,883		
Average Effective Rate	3.0%		2.6%		

Source of Tax Information:

(A) Kentucky Department of Revenue

NOTE: Calendar year 2008 is the most current year for which data is available and calendar year 2000 was the first year for which comparable data was available.

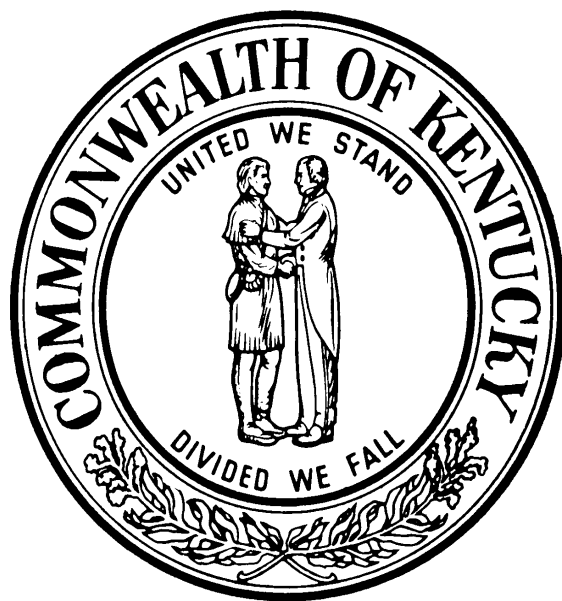
(B) See Schedule of Personal Income

(C) This information is presented on a cash basis.

Calendar Year 2000

Number of Filers	Percentage of Total	Personal Income Tax		Percentage of Total
		Liability		
805,957	50.05%	\$	218,426,319	8.68%
408,903	25.39%		551,103,310	21.91%
306,597	19.04%		843,345,292	33.53%
68,021	4.22%		394,353,831	15.68%
16,749	1.04%		243,645,359	9.69%
4,228	0.26%		264,123,850	10.50%
1,610,455	100.00%		2,514,997,961	100.00%

Number of Filers	Percentage of Total	Personal Income Tax		Percentage of Total
		Liability		
49,232	43.32%		5,390,760	5.23%
23,750	20.90%		12,641,801	12.26%
19,663	17.30%		20,389,476	19.77%
9,465	8.33%		17,063,873	16.54%
5,583	4.91%		12,843,514	12.45%
5,953	5.24%		34,807,868	33.75%
113,646	100.00%		103,137,292	100.00%
1,724,101.00		\$	2,618,135,253	



COMMONWEALTH OF KENTUCKY
ASSESSED AND ESTIMATED ACTUAL VALUE OF TAXABLE PROPERTY
FOR CALENDAR YEARS 2000-2009
(Expressed in Thousands, Except Ratio Data)

For the Year Ended December 31	Real Property		Personal Property		Totals		Ratio of Total Assessed to Total Estimated Actual Value
	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	Assessed Value	Estimated Actual Value	
2000	\$ 134,604,823	\$ 143,196,620	\$ 141,579,703	\$ 141,579,703	\$ 276,184,525	\$ 284,776,323	97.0%
2001	144,947,137	154,199,082	148,966,508	148,966,508	293,913,645	303,165,590	96.9%
2002	153,558,852	163,360,481	178,290,246	178,290,246	331,849,099	341,650,727	97.1%
2003	162,167,033	172,518,120	188,846,577	188,846,577	351,013,610	361,364,697	97.1%
2004	171,533,143	182,482,067	190,803,292	190,803,292	362,336,435	373,285,359	97.1%
2005	183,052,164	194,736,345	198,811,311	198,811,311	381,863,476	393,547,656	97.0%
2006	195,349,504	207,818,621	146,437,150	146,437,150	341,786,654	354,255,771	96.5%
2007	209,408,191	222,774,671	155,998,799	155,998,799	365,406,990	378,773,470	96.5%
2008	219,881,174	233,916,143	160,465,814	160,465,814	380,346,988	394,681,957	96.4%
2009	226,213,765	240,652,941	160,898,648	160,898,648	387,112,413	401,551,589	96.4%

SOURCE: Kentucky Department of Revenue

NOTE: Assessed values are established through the utilization of an annual ad valorem tax based on the fair value of property.

COMMONWEALTH OF KENTUCKY
PROPERTY TAX LEVIES AND COLLECTIONS
FOR CALENDAR YEARS 2000-2009
(Expressed in Thousands, Except Percentages)

For the Year Ended June 30	Total Levied	Current Tax Collections	Percent of Levy Collected	Delinquent Tax Collections	Total Tax Collections	Percent of Total Tax Collections to Tax Levy	Weighted Average State Rate **
2000	\$ 402,428	\$ 371,715	92.4%	\$ 17,346	\$ 389,061	96.7%	67.58
2001	416,490	386,890	92.9%	22,408	409,298	98.3%	67.14
2002	429,425	407,380	94.9%	22,045 *	429,425	100.0%	66.98
2003	450,348	414,399	92.0%	23,353	437,752	97.2%	68.35
2004	478,017	432,937	90.6%	18,813	451,750	94.5%	70.03
2005	505,847	451,949	89.3%	23,632	475,581	94.0%	71.12
2006	483,608	467,209	96.6%	16,299 *	483,508	100.0%	65.05
2007	513,301	483,127	94.1%	17,520	500,647	97.5%	66.45
2008	527,149	490,176	93.0%	22,946	513,122	97.3%	65.26
2009	530,822	491,218	92.5%	24,952	516,170	97.2%	64.26

SOURCE: Kentucky Department of Revenue

NOTE: Property taxes are assessed as of January 1 of each year in one of two ways: 1) by the 120 Property Valuation Administrators within the State, or 2) by the Revenue Cabinet. The tax rates are set by the various taxing jurisdictions and applied to the particular assessment. Tax bills are delivered by September 15 of each year. Also, the "Total Tax Levy" in this table has been re-specified for the years shown to adjust for the fact that the receipts for motor vehicles involve two different assessment years.

* Delinquent tax collections in excess of the current year levy have been allocated to prior years.

** The weighted average state rate includes state and local rates and are expressed in cents per \$100 of assessed value.

COMMONWEALTH OF KENTUCKY
RATIOS OF OUTSTANDING DEBT BY TYPE
FOR THE LAST TEN FISCAL YEARS
(Expressed in Thousands, Except Ratio Data)

	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>
Governmental Activities Debt				
Revenue Bonds (2)	\$ 5,959,845	\$ 4,429,520	\$ 3,617,080	\$ 3,442,634
Notes (2)	1,089,740	1,059,520	1,516,350	910,310
Capital Leases (2)	<u>32,341</u>	<u>26,638</u>	<u>30,968</u>	<u>39,079</u>
Total Government Activities Debt	<u>7,081,926</u>	<u>5,515,678</u>	<u>5,164,398</u>	<u>4,392,023</u>
Business-Type Activities Debt				
Notes (2)				
Capital Leases (2)	<u>127</u>	<u>211</u>	<u>212</u>	<u>197</u>
Total Business-Type Activities Debt	<u>127</u>	<u>211</u>	<u>212</u>	<u>197</u>
Total Primary Government Debt	<u>\$ 7,082,053</u>	<u>\$ 5,515,889</u>	<u>\$ 5,164,610</u>	<u>\$ 4,392,220</u>
Total Debt Ratios				
Ratio of Total Debt to Personal Income	<u>7.09%</u>	<u>5.45%</u>	<u>5.21%</u>	<u>4.64%</u>
Total Debt Per Capita (1)	<u>\$ 1,641.60</u>	<u>\$ 1,292.01</u>	<u>\$ 1,217.65</u>	<u>\$ 1,044.26</u>
Net Bonded Debt				
Gross Bonded Debt	\$ 5,959,845	\$ 4,429,520	\$ 3,617,080	\$ 3,442,634
Less: Debt Service Funds	<u>197,802</u>	<u>353,391</u>	<u>405,028</u>	<u>415,386</u>
Net Bonded Debt	<u>\$ 5,762,043</u>	<u>\$ 4,076,129</u>	<u>\$ 3,212,052</u>	<u>\$ 3,027,248</u>
Net Bonded Debt Ratios				
Ratio of Net Bonded Debt to Governmental Funds Revenues	<u>29.54%</u>	<u>22.22%</u>	<u>17.97%</u>	<u>17.77%</u>
Net Bonded Debt Per Capita (1)	<u>\$ 1,335.63</u>	<u>\$ 954.77</u>	<u>\$ 757.30</u>	<u>\$ 719.73</u>

(1) Per Capita calculations are based on the population figures for the prior year. (See Demographics Schedule on page 208)

(2) See Note 15 for Debt Amounts

2006	2005	2004	2003	2002	2001
\$ 3,546,468	\$ 3,236,766	\$ 3,225,431	\$ 3,165,223	\$ 3,405,046	\$ 2,944,839
554,790	373,990	186,970	31,475	81,535	73,875
28,450	32,518	17,252	8,565	24,712	2,153
<u>4,129,708</u>	<u>3,643,274</u>	<u>3,429,653</u>	<u>3,205,263</u>	<u>3,511,293</u>	<u>3,020,867</u>
		451		339	1,697
307	275	245	77	183	4,630
<u>307</u>	<u>275</u>	<u>696</u>	<u>77</u>	<u>522</u>	<u>6,327</u>
<u>\$ 4,130,015</u>	<u>\$ 3,643,549</u>	<u>\$ 3,430,349</u>	<u>\$ 3,205,340</u>	<u>\$ 3,511,815</u>	<u>\$ 3,027,194</u>
<u>4.54%</u>	<u>4.26%</u>	<u>4.28%</u>	<u>4.42%</u>	<u>4.98%</u>	<u>4.40%</u>
<u>\$ 989.60</u>	<u>\$ 878.83</u>	<u>\$ 833.05</u>	<u>\$ 783.15</u>	<u>\$ 863.10</u>	<u>\$ 747.67</u>
\$ 3,546,468	\$ 3,236,766	\$ 3,225,431	\$ 3,165,223	\$ 3,405,046	\$ 2,944,839
403,002	314,554	317,665	354,836	329,267	529,164
<u>\$ 3,143,466</u>	<u>\$ 2,922,212</u>	<u>\$ 2,907,766</u>	<u>\$ 2,810,387</u>	<u>\$ 3,075,779</u>	<u>\$ 2,415,675</u>
<u>18.45%</u>	<u>18.35%</u>	<u>18.26%</u>	<u>17.65%</u>	<u>19.32%</u>	<u>15.17%</u>
<u>\$ 753.21</u>	<u>\$ 704.84</u>	<u>\$ 706.14</u>	<u>\$ 686.65</u>	<u>\$ 755.94</u>	<u>\$ 596.64</u>

**COMMONWEALTH OF KENTUCKY
UNIVERSITY AND COLLEGE REVENUE BOND COVERAGE
FOR THE LAST TEN FISCAL YEARS**
(Expressed in Thousands, Except Ratio Data)

Fiscal Year Ending June 30	Net Revenue Available For Debt Service	Debt Service Requirement	Coverage Ratio
2001	\$ 301,649	\$ 83,069	3.63
2002	269,609	66,828	4.03
2003	112,670	53,825	2.09
2004	337,945	54,034	6.25
2005	326,099	57,375	5.68
2006	499,346	57,141	8.74
2007	613,592	43,071	14.25
2008	235,398	47,782	4.93
2009	231,058	55,549	4.16
2010	308,774	61,448	5.02

SOURCE: Commonwealth of Kentucky Comprehensive Annual
Financial Reports; State universities' audited financial statements

TOP 10 MANUFACTURERS
(Ranked by Number of Employees)
CURRENT YEAR AND NINE YEARS AGO

Company	2010			2001		
	Number of Employees	Rank	Percentage of Total Employment	Number of Employees	Rank	Percentage of Total Employment
United Parcel Service, Inc.	13,307	1	0.71%			
Toyota Motor Corp.	9,611	2	0.51%	7,800	3	0.42%
Humana Inc.	9,123	3	0.48%			
Ford Motor Co.	5,391	4	0.29%	9,580	1	0.51%
General Electric Co.	5,067	5	0.27%	9,410	2	0.51%
Citigroup	4,097	6	0.22%			
FMR LLC	3,900	7	0.21%			
Affiliated Computer Services Inc.	3,360	8	0.18%			
Lexmark International Inc.	3,130	9	0.17%	5,500	5	0.30%
Delta Air Lines, Inc.	2,700	10	0.14%			
Johnson Controls, Inc.				5,972	4	0.32%
Dana Corp.				4,746	6	0.25%
Emerson Electric Company				3,510	7	0.19%
Publishers Printing				2,650	8	0.14%
R.R. Donnelly and Sons Company				2,400	9	0.13%
Toyota Tsusho				2,293	10	0.12%
	59,686		3.17%	53,861		2.89%

SOURCE:
Website Address: <http://www.thinkkentucky.com>
<http://www.workforcekentucky.ky.gov>

DEMOGRAPHIC STATISTICS
FOR CALENDAR YEARS 2000-2009

For the Year Ended December 31	Estimated Population	Per Capita Income	Unemployment Rate
2000	4,048,832	\$ 24,258	4.1%
2001	4,068,816	24,878	5.4%
2002	4,092,891	25,579	5.6%
2003	4,117,827	26,252	6.2%
2004	4,145,922	27,709	5.3%
2005	4,173,405	28,513	6.1%
2006	4,206,074	29,352	5.7%
2007	4,241,474	31,111	5.5%
2008	4,269,245	31,826	6.4%
2009	4,314,113	32,306	10.5%

SOURCE: Website Addresses: <http://www.bea.gov>
<http://www.bls.gov>

COMMONWEALTH OF KENTUCKY
SOURCES OF PERSONAL INCOME
FOR CALENDAR YEARS 2000-2009
(Expressed in Thousands, Except Percent Data)

Source	2000		2001		2002*		2003**		2004**	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Farm	\$ 1,361,530	2.0%	\$ 973,207	1.4%	\$ 883,000	1.2%	\$ 854,000	1.1%	\$ 580,000	0.7%
Agriculture services, forestry, fisheries and others	502,305	0.7%	521,571	0.7%	521,000	0.7%	383,250	0.5%	359,250	0.4%
Mining	1,197,845	1.7%	1,332,006	1.9%	1,382,000	1.9%	1,310,500	1.6%	1,495,250	1.7%
Manufacturing	13,945,732	20.3%	13,636,163	19.3%	13,611,000	18.8%	14,816,000	18.5%	16,142,000	18.9%
Construction	4,196,268	6.1%	4,330,236	6.1%	4,276,000	5.9%	4,821,250	6.0%	4,819,750	5.6%
Wholesale and retail trade	10,537,792	15.3%	10,699,135	15.2%	11,088,000	15.3%	9,940,250	12.4%	10,475,250	12.3%
Finance, insurance and real estate	3,690,749	5.4%	3,776,761	5.4%	4,034,000	5.6%	4,962,750	6.2%	5,274,250	6.2%
Transportation and public utilities	5,337,433	7.8%	5,495,944	7.8%	5,478,000	7.6%	5,023,250	6.3%	5,386,750	6.3%
Services	15,629,585	22.6%	16,507,154	23.4%	17,285,000	23.8%	23,330,250	29.1%	24,756,000	29.0%
Government and government enterprises	12,452,644	18.1%	13,218,964	18.8%	13,940,000	19.2%	14,686,250	18.3%	16,196,000	18.9%
Earnings by Place of Work	<u>\$ 68,851,883</u>	<u>100.0%</u>	<u>\$ 70,491,141</u>	<u>100.0%</u>	<u>\$ 72,498,000</u>	<u>100.0%</u>	<u>\$ 80,127,750</u>	<u>100.0%</u>	<u>\$ 85,484,500</u>	<u>100.0%</u>

Source	2005**		2006**		2007**		2008**		2009**	
	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent	Amount	Percent
Farm	\$ 1,520,500	1.7%	\$ 532,750	0.6%	\$ 1,040,750	1.0%	\$ 932,500	0.9%	\$ 1,364,000	1.4%
Agriculture services, forestry, fisheries and others	369,750	0.4%	422,500	0.4%	407,250	0.4%	421,500	0.4%	319,250	0.3%
Mining	1,879,750	2.1%	2,128,750	2.3%	2,227,000	2.2%	2,475,000	2.4%	2,121,000	2.1%
Manufacturing	16,364,000	18.0%	17,033,000	18.0%	17,069,000	17.2%	16,305,750	16.1%	13,446,500	13.5%
Construction	5,133,750	5.6%	5,225,750	5.5%	5,292,750	5.3%	5,356,750	5.3%	5,045,000	5.1%
Wholesale and retail trade	10,857,250	11.9%	11,430,750	12.1%	11,726,500	11.8%	11,870,500	11.7%	11,548,500	11.6%
Finance, insurance and real estate	5,487,250	6.0%	5,922,750	6.3%	6,345,250	6.4%	6,390,750	6.3%	5,979,500	6.0%
Transportation and public utilities	5,452,500	6.0%	5,653,750	6.0%	6,237,000	6.3%	6,008,000	5.9%	6,062,250	6.1%
Services	26,222,250	28.9%	27,810,500	29.3%	29,033,250	29.4%	30,718,250	30.5%	31,714,500	31.6%
Government and government enterprises	17,594,750	19.4%	18,420,500	19.5%	19,826,000	20.0%	20,809,250	20.5%	22,249,500	22.3%
Earnings by Place of Work	<u>\$ 90,881,750</u>	<u>100.0%</u>	<u>\$ 94,581,000</u>	<u>100.0%</u>	<u>\$ 99,204,750</u>	<u>100.0%</u>	<u>\$ 101,288,250</u>	<u>100.0%</u>	<u>\$ 99,850,000</u>	<u>100.0%</u>

SOURCE: U.S. Department of Commerce, Bureau of Economic Analysis (<http://www.bea.gov>)

NOTE: Percentages may not add to 100% due to rounding.

* 2002 annual estimates computed with BEA table SQ5 by adding 4 quarters of 2002 and dividing by 4.

** Annual estimates computed with BEA table SQ5N by adding 4 quarters of each year and dividing by 4.

Quarterly charts show each quarter as an annualized amount based on amounts to date.

Amounts are based on the North American Industry Classification System (NAICS) instead of the Standard Industrial Classification (SIC) system used in previous years. This affects comparability of amounts. NAICS will be used in the future fiscal years.

**COMMONWEALTH OF KENTUCKY
OPERATING INDICATORS BY FUNCTION
FOR THE LAST FIVE FISCAL YEARS**

	2010	2009	2008	2007	2006
Personnel					
Number of Full Time Employees-					
Executive Branch	33,225	32,747	33,608	33,204	34,947
Health Insurance Expenditures -					
Percentage Increase/(decrease)	18.7%	(1.3%)	6.1%	(1.8%)	29%
Education					
K-12 Enrollment	636,188	671,147	671,542	668,337	664,606
K-12 Attendance Rate	94.18%	94.17%	94.18%	94.60%	94.31%
K-12 Graduation Rate	83.91%	84.52%	83.72%	83.26%	82.84%
Statewide Academic Index	*	*	82.20%	81.80%	78.30%
Average ACT Score	19.4	19.4**	20.9	20.7	20.6
GED Graduates	3,357	9,382	10,307	9,757	9,054
College Going Rate for 9th Graders	42%	44%	38%	38%	37%
Postsecondary Education Enrollment	223,893	211,179	212,994	206,419	202,197
Bachelor's and Higher Degrees Awarded	28,798	27,983	27,246	27,042	26,544
Justice and Public Safety					
Incarcerated Population-Daily Average	20,798	21,470	22,219	20,772	19,943
Probation and Parole Population - Daily Average	39,364	38,933	39,206	33,642	33,643
Health and Family Services					
Medicaid Enrollment-Average	788,236	748,296	722,559	710,000	699,595
Food Stamp Recipients-Monthly Average	761,654	680,087	623,997	595,366	598,486
Temporary Assistance for Needy					
Families (TANF)-Monthly Average	58,049	48,368	48,743	68,260	69,696
Children with substantiated incidences	15,092	14,475	15,196	15,500	15,526
Environmental and Public Protection					
Air Pollution Source Inspections	5,910	3,085	4,310	4,000	4,600
Waste Management Inspections	7,060	5,910	6,443	7,500	7,200
Acres of Land Reforested	4,520	5,580	5,105	2,000	1,600
Mine Permits Issued	608	688	848	954	1,025
Mine Reclamation and Enforcement					
Inspections	25,686	24,890	26,062	22,898	22,001
Mine Safety-Completed Inspections	4,611	2,888	2,718	2,364	2,500
Transportation					
Percentage of Total Road System					
Needing Improvement	17.70%	14%	15%	15%	14%
Statewide Road Maintainance					
Rating (Top Score = 80)	79.7	80.9	81.7	80.1	79.1
Daily Miles Traveled-Percentage					
Changed (as compared to 2005 Data)	(0.1%)	0.0%	(0.5%)	0.1%	(0.3%)
State-Maintained Lane Miles-					
Annual Percent Change	0.10%	1.6%	0.6%	0.2%	0.2%
Kentucky Road Construction Cost					
Index-Percent Increase (1987 Base Year)	13.85%	22.69%	27.95%	32.0%	19.5%

* The Statewide Academic Index is no longer generated.

** First graduating class in which all students were required to take the ACT. A reduction was expected.

**COMMONWEALTH OF KENTUCKY
CAPITAL ASSET STATISTICS BY FUNCTION
FOR THE LAST FIVE FISCAL YEARS**

	2010	2009	2008	2007	2006
<u>General Government</u>					
Number of Buildings	326	309	558	566	297
Number of Vehicles	365	356	411	487	258
Land (Acres)	14,614	14,293	13,352	14,108	13,294
<u>Commerce</u>					
Number of Resort Parks	17	17	17	17	17
Number of Recreation Parks	23	24	24	24	24
Number of Historic Sites	10	11	11	11	10
Area of State Parks (Acres)	42,035	42,597	42,428	42,428	45,137
<u>Education and Humanities</u>					
Number of Buildings	73	72	70	69	70
Number of Vehicles	101	113	123	134	209
Land (Acres)	388	388.4	372	388.4	388
<u>Human Resources</u>					
Number of Buildings	200	196	196	193	190
Number of Vehicles	46	40	150	165	215
Land (Acres)	1,206	1,206	1,007	1,206	1,206
<u>Justice</u>					
Number of Buildings	508	479	482	449	440
Number of Vehicles	1,863	1,861	1,696	1,668	3,911
Land (Acres)	8,867	8,903	6,166	5,314	9,044
<u>Natural Resources and Environmental Protection</u>					
Number of Buildings	26	26	26	27	25
Number of Vehicles	916	815	847	1,319	2,622
Land (Acres)	59,149	58,325	51,175	50,983	64,134
<u>Public Protection and Regulation</u>					
Number of Vehicles	121	90	76	86	44
<u>Transportation</u>					
Number of Lane Miles -State Maintained Highways	62,913	62,823	62,419	62,071	62,193
Number of State maintained Bridges	8,933	8,870	8,842	8,974	8,974
Land (Acres)	1,981	1,981	1,977	1,977	1,961

**COMMONWEALTH OF KENTUCKY
OPERATING INFORMATION
STATE GOVERNMENT EMPLOYEES BY FUNCTION
FOR THE LAST TEN FISCAL YEARS**

	2010	2009	2008	2007
<u>FULL-TIME EMPLOYEES</u>				
FUNCTION				
General government	4,841	4,706	4,855	4,984
Legislative and judicial	3,597	3,759	3,730	3,626
Commerce	2,023	2,038	2,141	2,155
Education and humanities	2,712	2,760	2,967	2,984
Human resources	7,482	7,182	7,387	7,751
Justice	7,938	7,955	8,090	7,967
Natural resources and environmental protection	1,675	1,649	1,601	1,673
Public protection and regulation	1,127	1,102	1,208	1,194
Transportation	4,713	4,467	4,549	4,711
Total full-time employees	36,108	35,618	36,528	37,045
<u>PART-TIME and TEMPORARY EMPLOYEES</u>				
FUNCTION				
General government	662	659	649	757
Legislative and judicial	483	539	574	554
Commerce	1,376	1,496	1,506	1,548
Education and humanities	306	219	228	281
Human resources	124	91	71	165
Justice	39	27	58	33
Natural resources and environmental protection	56	31	27	67
Public protection and regulation	31	14	15	54
Transportation	133	129	156	202
Total part-time and temporary employees	3,210	3,205	3,284	3,661
Total Employees	39,318	38,823	39,812	40,706

2006	2005	2004	2003	2002	2001
5,004	5,150	5,062	5,317	5,514	5,160
3,445	3,332	3,138	3,177	2,861	3,047
2,212	2,206	2,188	2,348	2,357	2,412
2,906	2,923	3,158	2,026	3,184	3,218
8,411	8,861	9,015	9,395	9,607	9,489
7,932	7,693	7,488	7,139	7,121	7,002
1,659	1,681	1,692	1,575	1,564	1,580
1,199	1,164	1,112	1,819	1,815	1,821
4,715	5,082	5,251	5,860	6,057	6,123
37,483	38,092	38,104	38,656	40,080	39,852
781	787	665	684	707	746
583	751	747	720	516	696
1,516	1,522	1,525	1,587	1,468	1,431
306	265	347	408	468	507
114	97	69	112	289	215
50	49	27	33	66	93
54	51	38	26	31	35
34	35	23	33	33	48
165	126	80	88	117	257
3,603	3,683	3,521	3,691	3,695	4,028
41,086	41,775	41,625	42,347	43,775	43,880

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